

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**Financial Report
with Supplemental Information
Prepared in Accordance with GASB 34**

June 30, 2008

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	4
ADMINISTRATION'S DISCUSSION AND ANALYSIS	7
BASIC FINANCIAL STATEMENTS.....	20
STATEMENT OF NET ASSETS	21
STATEMENT OF ACTIVITIES	22
BALANCE SHEET – GOVERNMENTAL FUNDS	23
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS.....	25
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	26
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	28
STATEMENT OF FIDUCIARY NET ASSETS	29
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS	30
NOTES TO THE FINANCIAL STATEMENTS	31
REQUIRED SUPPLEMENTAL INFORMATION	89
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND	90
BUDGETARY COMPARISON SCHEDULE – FOOD SERVICE.....	91
OTHER SUPPLEMENTAL INFORMATION.....	92
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS.....	93
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS	95
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NON-MAJOR GOVERNMENTAL FUNDS	96
ALL SPECIAL REVENUE FUNDS – COMBINING BALANCE SHEET.....	97
ALL SPECIAL REVENUE FUNDS - COMBINING SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES	98
ALL DEBT RETIREMENT FUNDS - COMBINING BALANCE SHEET	99
ALL DEBT RETIREMENT FUNDS - COMBINING SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES	100
GENERAL FUND - COMPARATIVE BALANCE SHEET	101
GENERAL FUND - SUPPLEMENTAL SCHEDULE OF REVENUES – ACTUAL COMPARED TO BUDGET	102
GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED TO BUDGET	104
SPECIAL REVENUE FUND – FOOD SERVICE FUND – COMPARATIVE BALANCE SHEET	110
SPECIAL REVENUE FUND – FOOD SERVICE - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - ACTUAL COMPARED TO BUDGET	111
SPECIAL REVENUE FUND – ATHLETIC ACTIVITY FUND – COMPARATIVE BALANCE SHEET	112
SPECIAL REVENUE FUND – ATHLETIC ACTIVITY FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - ACTUAL COMPARED TO BUDGET.....	113
SPECIAL REVENUE FUND – NIMROD MANIA FUND – COMPARATIVE BALANCE SHEET	114
SPECIAL REVENUE FUND – NIMROD MANIA FUND - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - ACTUAL COMPARED TO BUDGET.....	115

TABLE OF CONTENTS

	Page
OTHER SUPPLEMENTAL INFORMATION (Continued)	
DEBT RETIRMENT FUND – BUILDING AND SITE - COMPARATIVE BALANCE SHEET.....	116
DEBT RETIREMENT FUND – BUILDING AND SITE – COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE.....	117
DEBT RETIRMENT FUND – ENERGY CONSERVATION IMPROVEMENT BONDS – COMPARATIVE BALANCE SHEET	118
DEBT RETIRMENT FUND – ENERGY CONSERVATION IMPROVEMENT BONDS - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE.....	119
CAPITAL PROJECTS FUND – LVD PROJECTS – COMPARATIVE BLANCE SHEET.....	120
CAPITAL PROJECTS FUND – LVD PROJECTS – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE.....	121
TRUST AND AGENCY FUND - BALANCE SHEET	122
SUPPLEMENTAL SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS	123
PROPERTY TAX DATA.....	124
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	125
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	128
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	131
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	137

INDEPENDENT AUDITOR'S REPORT

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Board of Education
Watersmeet Township School District
P.O. Box 217
Watersmeet, Michigan 49969

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Watersmeet Township School District**, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

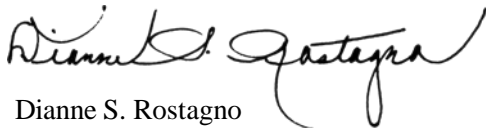
We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, and with the standards prescribed by the State Treasurer. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Education, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinions, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Watersmeet Township School District** at June 30, 2008, and the respective changes in financial position thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 2008, on our consideration of the **Watersmeet Township School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide opinions on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the report in considering the results of our audit.

The administration's discussion and analysis and budgetary comparison information on pages 8 through 19 are not a required part of the basic financial statements but are supplemental information required by the *Governmental Accounting Standards Board* and by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinions on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Watersmeet Township School District's** basic financial statements. The introductory section and the combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the **Watersmeet Township School District**, Watersmeet, Michigan. The combining and individual non-major fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinions, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with the first name "Dianne" and last name "Rostagno" clearly distinguishable.

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

November 10, 2008

ADMINISTRATION'S DISCUSSION AND ANALYSIS

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

The **Watersmeet Township School District** is a K-12 school district located in Gogebic County, Michigan.

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the **Watersmeet Township School District's** discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the District's major instructional and non-instructional support activities are reported in the General Fund. Additional activities are reported in the relevant funds, including Debt Service, Capital Projects, and the School Service Funds, which are comprised of Food Service, Athletics, and Nimrod Mania Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term debt obligations are recorded as expenditures. Future years' debt obligations are not recorded.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

District-wide Financial Statements

The *District-wide Financial Statements* are full accrual basis statements. They report all of the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Fund solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets on the *District-wide Financial Statements*.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity and scholarship funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Summary of Net Assets:

The following summarizes the comparative net assets at fiscal years ended June 30, 2008 and June 30, 2007

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

Summary of Net Assets: (Continued)

NET ASSETS SUMMARY

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<u>Assets</u>		
Current Assets	\$ 960377	\$ 1183219
Capital Assets	8502578	8460877
Less: Accumulated Depreciation	<u>(1496052)</u>	<u>(1298664)</u>
Total Assets	7966903	8345432
<u>Liabilities</u>		
Current Liabilities	603062	582059
Long-term Liabilities	<u>6380318</u>	<u>6610307</u>
Total Liabilities	6983380	7192366
Net Assets		
Invested in Capital Assets, Net of Related Debt	453192	332213
Restricted for Inventory	1127	0
Restricted for Food Service	29558	30097
Restricted for Debt Service	142258	113106
Restricted for Capital Projects	75665	74863
Restricted for Special Projects	71167	74804
Restricted for Athletics	5276	5329
Unrestricted and Undesignated	<u>205280</u>	<u>522654</u>
Total Net Assets	\$ 983523	\$ 1153066

WATERSMEET TOWNSHIP SCHOOL DISTRICT

N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969

Analysis of Financial Position

During fiscal year ended June 30, 2008, the District's net assets decreased by \$ 169,543. A few of the significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The District's expenditures from General Fund operations exceeded revenues by \$ 107,490. General Fund revenues decreased by \$ 153,771 from the last fiscal year, while General Fund expenditures increased by \$ 23,090 from the prior year.

B. Debt, Principal Payments

The District made principal payments on bonded, long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	Principal Balance <u>June 30, 2007</u>	<u>Additions</u>	Principal Payments <u>Applied</u>	Principal Balance <u>June 30, 2008</u>
2002 Building & Site Bonds	\$ 1030000	\$ 0	\$ 235000	\$ 795000
2003 Energy Conservation Improvement Bonds	320000	0	26667	293333
2006 Refunding Bonds	5480000	0	15000	5465000
Long-Term Employee Benefits	<u>76889</u>	<u>83207</u>	<u>19915</u>	<u>140181</u>
Totals	\$ 6906889	\$ 83207	\$ 296582	\$ 6693514

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

C. Net Investment in Capital Assets

The District's net investment in capital assets is as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Capital Assets	\$ 8460877	\$ 41701	\$ -0-	\$ 8502578
Less: Accumulated Depreciation	<u>(1298664)</u>	<u>(197338)</u>	<u>-0-</u>	<u>(1496002)</u>
Net Investment in Capital Assets	\$ 7162213	\$ (155637)	\$ -0-	\$ 7006576

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

Results of Operations:

For the fiscal years ended June 30, 2008 and June 30, 2007, the comparative District-wide results of operations were as follows:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<u>Revenues</u>		
<i>General Revenues</i>		
Property taxes, levied for general operations	\$ 1897709	\$ 1698251
Property taxes, levied for debt service	530487	521654
Penalties and interest on taxes	13592	11563
Other local taxes	21511	21171
State Aid, Unrestricted	28514	165758
Schools and Roads grant	78686	80905
Interest and Investment Earnings	52051	72949
Other general revenues	<u>163218</u>	<u>74685</u>
<i>Total General Revenues</i>	\$ 2785768	\$ 2646936
<i>Operating Grants</i>		
Federal	873182	1102254
State of Michigan	86836	150952
Other operating grants	<u>5347</u>	<u>2160</u>
<i>Total Operating Grants</i>	965365	1255366
<i>Capital Grants</i>		
Other	0	86582
<i>Charges for Services</i>		
Food Service	26298	28976
Athletics	9998	11890
Nimrod Mania	<u>69186</u>	<u>65523</u>
<i>Total Charges for Services</i>	105482	106389
Total Revenues	\$ 3856615	\$ 4095273

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

Results of Operations: (Continued)

<u>Expenses</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Instruction	\$ 2119215	\$ 2097400
Support Services	1121812	1071335
Food Services	182420	183955
Athletics	59397	73555
Nimrod Mania	3717	6977
Interest on long-term debt	266004	343087
Depreciation (Unallocated)	197389	201934
Other Expenses	<u>76204</u>	<u>286548</u>
Total Expenses	4026158	4264791
INCREASE IN NET ASSETS	(169543)	(169518)
BEGINNING NET ASSETS	1153066	1322584
ADJUST OPENING BALANCES	<u>0</u>	<u>0</u>
ENDING NET ASSETS	\$ 983523	\$ 1153066

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance.
- b. Student Enrollment - Blended at 80 percent of current year's fall count and 20 percent of prior year's winter count.
- c. The District's non-homestead levy.

Per Student, Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The **Watersmeet Township School District's** foundation allowance was \$ 8,283 per student for the 2007-2008 school year.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

Student Enrollment

The District's pupil enrollment for state aid membership for the 2007-2008 fiscal year was 229.38. The District's enrollment decreased slightly from the prior year's student count. The following summarizes the state aid membership (student enrollments) for the past five years:

	Student FTE
2007-2008	229.38
2006-2007	236.75
2005-2006	253.04
2004-2005	237.60
2003-2004	224.92

2. Property Taxes Levied for General Operations (General Fund Non-Homestead)

The District levies 18.0000 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase, or five percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2007-2008 fiscal year was \$ 1,897,709. The non-homestead property tax levy increased by approximately 11.7 percent over the prior year.

The following summarizes the District's non-homestead property tax levy for the past five years:

	Non-Homestead Tax Levy	Percent Increase From Prior Year
2007-2008	\$ 1,897,709	11.70
2006-2007	1,698,251	5.00
2005-2006	1,625,086	9.00
2004-2005	1,485,101	13.70
2003-2004	1,306,175	4.00

Average increase over last five years: 8.68%

3. Debt Service Fund Levy

The District's debt service fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties - both homestead and non-homestead. For the fiscal year ended June 30, 2008, the District's debt millage levy was 3.7500 mills, which generated revenue of \$ 530,487.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

4. Food Sales to Students and Adults (School Lunch Program)

The District's food sales to students decreased slightly from the prior school year. Since it had previously been determined that the state school lunch funding (31D) had been overpaid in past fiscal years, a negative adjustment in this funding was made by the State in the amount of \$ 15,317 for the 2007-08 fiscal year. The original amount of overpayment was \$ 76,583. At the close of the 2007-2008 fiscal year, a total of \$ 61,267 had been applied to that overpayment, and at June 30, 2008, the balance due to the State of Michigan was \$ 15,316. This liability is reflected on the Food Service Balance Sheet.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in Required Supplemental Information of these financial statements.

Changes to the General Fund and Food Service original budgets were as follows:

	<u>Revenue Original Budget</u>	<u>Revenue Final Budget</u>	<u>Revenue Final Actual</u>	<u>Revenue Variance Actual vs Original Budget</u>	<u>Revenue Variance Actual vs Final Budget</u>
General Fund	\$ 3478291	\$ 3093396	\$ 3110422	(\$ 367869)	\$17026
Food Service	112050	106182	112529	479	6347

	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual vs Original Budget</u>	<u>Expenditures Variance Actual vs Final Budget</u>
General Fund	\$ 3253974	\$ 3202445	\$ 3217912	\$ 36062	\$ (15467)
Food Service	107400	173455	182420	(75020)	(8965)

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

General Fund Budgetary Highlights (Continued)

Budgeted revenues were decreased by \$ 384,895, a decrease of approximately 11 percent from the original budget. Actual revenues came in \$ 17,026 more than final budgetary amounts.

Budgeted expenditures were decreased by \$ 51,529 from the original budgeted amounts, representing an approximate 1.5 % decrease. Actual expenditures exceeded the final appropriated amounts by \$ 15,467.

Food Service Budgetary Highlights

Budgeted revenues were decreased by \$5,868 from the original budget. Actual revenues exceeded both the original and the final amended budgets, coming in at \$112,529.

Budgeted expenditures were increased by \$66,055 from the original budgeted amounts. Actual expenditures were \$182,420, which exceeded the final amended budget by \$ 8,965.

2007-2008 Accomplishments and Highlights

- For the 2nd year in a row the most rewarding accomplishment would be the reporting of Ed Yes! And making AYP with a “B” Grade.
- Having the honor of receiving the Bemidji Area Indian Health Service Injury Prevention Community Collaboration Partnership of the Year Award with the Lax Vieux Desert Bank of Lake Superior Chippewa Indian Tribe Behavioral Health Program for our outstanding Bullyproofing program.
- Having the Nimrod Nation series being recognized by the Senate in Washington, DC on December 19, 2007. Senator Carl Levin informing President Bush and the entire senate about the background of the series, Watersmeet, Michigan, and the story behind our local high school basketball team.
- Receiving a Bronze Medal by the U.S. News and Report and being recognized by Michigan’s State Board of Education and Superintendent Flanagan for student achievement, class offerings, and college readiness. Watersmeet Township School District was deemed a model for others to follow.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

2007-2008 Accomplishments and Highlights (Continued)

- § The Reading First Program in grades K-3 continued its successful trends with students making improvements in all areas. The program is truly a model for other schools throughout the state. We were asked if the Michigan Department of Education could come in to film our teachers at work with their students to show other districts why our scores are so high.
- § Continued to offer the “Bright Side” after-school program each Tuesday and Thursday from 3:10 to 4:30.
- § The District graduated 24 seniors into the world all with goals of furthering their education or joining the Armed Forces. (2nd largest class in school history).

Goals/Events for 2008-2009

- § Continue to improve upon the Ed Yes! Criteria, MEAP scores and MME scores by holding for the 2nd year, monthly departmental meetings with K-12 instructors to align curriculum for success in addressing the high school expectations.
- § The District will purchase the Harcourt Reading First series for our 6th grade students. We will be following the Reading First Grant Program in grades K-6 this school year so all grade school students may continue to reap the rewards of this program.
- § Continue to offer Parent/Teacher Conferences at a convenient location for better attendance. This continues to keep the lines of communication open for parents and teachers. The Lac Vieux Desert Band of Lake Superior Chippewa Indians Bingo Hall located in the Lac Vieux Desert Bank of Lake Superior Indians Casino has been well received.
- § Continue to broaden the Native American Studies curriculum to include high school Ojibwe Language classes and to include Native American History, Ojibwe Language, Culture and elementary 3-6 language classes.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**N4720 Hwy 45 – P.O. Box 217
Watersmeet, Michigan 49969**

Goals/Events for 2008-2009 (Continued)

- § To strengthen our PowerSchool program to allow parents easier access to their student's grades, attendance and instructors by providing each parent with a user name and password to access the program.
- § With the devastating loss of our Reading First Program grant it will be a challenge to continue the program for the success of our young readers. Also, we could expand the reading coach to grades 4, 5 and 6 and not be limited to grades K, 1, 2, and 3. With 2% monies from Lac View Desert Band of Lake Superior Chippewa Indians, it will enable us to provide this very essential tool for our entire grade school population.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact:

Watersmeet Township School District
School Business Office
P.O. Box 217
Watersmeet, Michigan 49969

BASIC FINANCIAL STATEMENTS

WATERSMEET TOWNSHIP SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2008

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<i>Current Assets</i>	
Cash and Cash Equivalents (Note 3)	\$ 906,703
Prepaid Expenses	
Receivables	
Taxes	7,637
Accounts Receivable	272
Due from Other Governmental Units	7,284
Inventories	<u>38,481</u>
<i>Total Current Assets</i>	\$ 960,377
<i>Noncurrent Assets</i>	
Capital Assets (Note 5)	8,502,578
Less: Accumulated Depreciation (Note 5)	<u>(1,496,052)</u>
<i>Total Noncurrent Assets</i>	7,006,526
TOTAL ASSETS	\$ 7,966,903
<u>LIABILITIES</u>	
<i>Current Liabilities</i>	
Accounts Payable	2,881
Accrued Salaries and Benefits	271,495
Accrued Sales Tax	173
Deferred Revenue	-
Due to Other Governmental Units	15,316
Short-term Employee Benefits Payable	21,530
Bonds Payable, Due within one year (Note 8)	<u>291,667</u>
<i>Total Current Liabilities</i>	\$ 603,062
<i>Noncurrent Liabilities</i>	
Bonds Payable (Note 8)	6,261,667
Long-term Employee Benefits Payable	<u>118,651</u>
<i>Total Noncurrent Liabilities</i>	6,380,318
TOTAL LIABILITIES	\$ 6,983,380
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	453,192
Restricted for Inventory	1,127
Restricted for Food Service	29,558
Restricted for Debt Service	142,258
Restricted for Capital Projects	75,665
Restricted for Special Programs	71,167
Restricted for Athletics	5,276
Unrestricted, Undesignated	<u>205,280</u>
TOTAL NET ASSETS	<u>\$ 983,523</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants	Capital Grants	Net(Expense) Revenue and Changes in Net Assets
Primary Government -					
Government Activities:					
Instruction	\$ 2,119,215	\$ -	\$ 840,815	\$ -	\$ (1,278,400)
Support Services	1,121,812		34,067		(1,087,745)
Food Services	182,420	26,298	85,136		(70,986)
Athletics	59,397	9,998			(49,399)
Nimrod Mania Special Projects	3,717	69,186			65,469
Interest on Long-Term Debt	266,004				(266,004)
Depreciation (Unallocated)	197,389				(197,389)
Other Expenses	76,204		5,347		(70,857)
Total Governmental Activities	\$ 4,026,158	\$ 105,482	\$ 965,365	\$ -	\$ (2,955,311)
General Revenues:					
Taxes:					
Property taxes levied for general operations					1,897,709
Property taxes levied for debt service					530,487
Penalties/interest on taxes					13,592
Other local taxes					21,511
State Aid, Unrestricted					28,514
Schools and Roads Grant					78,686
Interest and Investment Earnings					52,051
Other					163,218
Total General Revenues					2,785,768
Change in Net Assets					(169,543)
Net Assets - Beginning of year					1,153,066
Net Assets - End of year					\$ 983,523

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2008

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Debt Retirement Building & Site Fund</u>
<u>ASSETS</u>			
Cash and Investments (Note 3)	\$ 639,747	\$ 6,255	\$ 138,812
Prepaid Expenses	-	-	-
Receivables:			
Taxes	4,191	-	3,446
Accounts Receivable	-	272	-
Due from Other Funds	4,158	34,353	-
Due from Other Governmental Units	6,094	1,190	-
Inventories	1,127	2,804	-
Total Assets	<u>\$ 655,317</u>	<u>\$ 44,874</u>	<u>\$ 142,258</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	2,881	-	-
Accrued Salaries and Benefits	271,495	-	-
Accrued Sales Tax	-	-	-
Deferred Revenue	-	-	-
Due to Other Governmental Units	-	15,316	-
Due to Other Funds	34,353	-	-
Total Liabilities	308,729	15,316	-
<u>Fund Balances</u>			
Unreserved and undesignated	345,461	-	-
Reserved for Inventory	1,127	-	-
Reserved for Food Service	-	29,558	-
Reserved for Debt Service	-	-	142,258
Reserved for Special Programs	-	-	-
Reserved for Capital Projects	-	-	-
Reserved for Athletics	-	-	-
Total Fund Balances	<u>346,588</u>	<u>29,558</u>	<u>142,258</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 655,317</u>	<u>\$ 44,874</u>	<u>\$ 142,258</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2008

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 121,889	\$ 906,703
	-
-	7,637
-	272
-	38,511
-	7,284
34,550	38,481
\$ 156,439	\$ 998,888
-	2,881
-	271,495
173	173
-	-
-	15,316
4,158	38,511
4,331	328,376
-	345,461
-	1,127
-	29,558
-	142,258
71,167	71,167
75,665	75,665
5,276	5,276
152,108	670,512
\$ 156,439	\$ 998,888

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS
GOVERNMENTAL FUNDS**

JUNE 30, 2008

Total Fund Balances - Governmental Funds	\$ 670,512
---	-------------------

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities
are not financial resources and are not
reported in the funds.

The cost of capital assets is:	8,502,578
Accumulated depreciation is:	(1,496,052)

Long term liabilities are not due and payable
in the current period and are not reported
in the funds:

Bonds Payable	(6,553,334)
Compensated Absences/Other Benefits	(140,181)

Other long term assets not available to pay
current period expenditures therefore
deferred in the funds

-

Total Net Assets - Governmental Activities	<u>\$ 983,523</u>
---	--------------------------

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2008

	<u>General Fund</u>	<u>Food Service Fund</u>
<u>REVENUE</u>		
Local Revenue	\$ 2,128,340	\$ 27,393
State Revenue	99,626	15,724
Federal Revenue	882,456	69,412
Interdistrict and Other Revenue	-	-
Miscellaneous	-	-
	<hr/>	<hr/>
TOTAL REVENUE	\$ 3,110,422	\$ 112,529
<u>EXPENDITURES</u>		
Current:		
Instruction	2,071,755	-
Support Services	1,105,980	-
Food Services	-	182,420
Athletics	-	-
Nimrod Mania Special Projects	-	-
Debt Service		
Principal	-	-
Interest and Other	-	-
Capital Outlay	40,177	-
Other Expenditures	-	-
	<hr/>	<hr/>
TOTAL EXPENDITURES	\$ 3,217,912	\$ 182,420
Excess (Deficiency) of Revenues Over Expenditures	(107,490)	(69,891)
<u>Other Financing Sources (Uses)</u>		
Operating transfers in	-	69,352
Operating transfers out	(145,555)	-
	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(145,555)	69,352
Net Change in Fund Balances	(253,045)	(539)
FUND BALANCE - BEGINNING OF YEAR	599,633	30,097
	<hr/>	<hr/>
FUND BALANCE - END OF YEAR	\$ 346,588	\$ 29,558
	<hr/> <hr/>	<hr/> <hr/>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2008

Debt Retirement Building & Site Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<u> </u>	<u> </u>	<u> </u>
\$ 547,785	\$ 85,879	\$ 2,789,397
-	-	115,350
-	-	951,868
-	-	-
-	-	-
<u> </u>	<u> </u>	<u> </u>
\$ 547,785	\$ 85,879	\$ 3,856,615
-	-	2,071,755
-		1,105,980
-		182,420
-	59,397	59,397
-	3,717	3,717
250,000	26,667	276,667
265,904	100	266,004
-	1,524	41,701
2,729	73,475	76,204
<u> </u>	<u> </u>	<u> </u>
\$ 518,633	\$ 164,880	\$ 4,083,845
29,152	(79,001)	-
		(227,230)
-	76,203	145,555
-	-	(145,555)
<u> </u>	<u> </u>	<u> </u>
-	76,203	-
29,152	(2,798)	(227,230)
113,106	154,906	897,742
<u> </u>	<u> </u>	<u> </u>
<u>\$ 142,258</u>	<u>\$ 152,108</u>	<u>\$ 670,512</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

GOVERNMENTAL FUNDS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ (227,230)
---	---------------------

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures; in
the statement of activities, these costs are allocated over their
estimated useful lives as depreciation.

Depreciation Expense	(197,389)
Capital Outlay	41,701

Revenue reported in the statement of activities that does not provide
current financial resources and are not reported as revenue
in the governmental funds

-

Accrued interest is recorded in the statement of activities when
incurred; it is not reported in governmental funds until paid

-

Bond proceeds are reported as financing sources in governmental
funds and thus contribute to the change in fund balance. In the
statement of net assets, however, issuing debt increases long-term
liabilities and does not affect the statement of activities.

Repayment of bond principal is an expenditure in the governmental
funds, but not in the statement of activities (where it reduces
long term debt)

276,667

(Increases) decreases long-term employee benefits are reported as
expenditures when financial resources are used in the governmental
funds in accordance with GASB Interpretation No. 6

(63,292)

Change in Net Assets of Governmental Activities

\$ (169,543)

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

FIDUCIARY FUND

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

ASSETS

Cash and Cash Equivalents	<u>\$ 60,159</u>
---------------------------	------------------

TOTAL ASSETS	\$ 60,159
---------------------	------------------

LIABILITIES

Due to Student Groups and Other	<u>14,925</u>
---------------------------------	---------------

TOTAL LIABILITIES	\$ 14,925
--------------------------	------------------

NET ASSETS

Reserved for Scholarships	<u>45,234</u>
---------------------------	---------------

TOTAL NET ASSETS	<u>\$ 45,234</u>
-------------------------	-------------------------

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

FIDUCIARY FUND

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

YEAR ENDED JUNE 30, 2008

	PRIVATE-PURPOSE TRUST FUND
<u>ADDITIONS</u>	
Gifts and Contributions	\$ 3,850
Investment Earnings	<u>1,721</u>
TOTAL ADDITIONS	\$ 5,571
<u>DEDUCTIONS</u>	
Scholarships Awarded	<u>650</u>
TOTAL DEDUCTIONS	\$ 650
CHANGE IN NET ASSETS	4,921
NET ASSETS - BEGINNING OF YEAR	<u>40,313</u>
NET ASSETS - END OF YEAR	<u><u>\$ 45,234</u></u>

The notes to the financial statements are an integral part of this report.

NOTES TO THE FINANCIAL STATEMENTS

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the **Watersmeet Township School District** have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant accounting policies of the School District:

The Financial Reporting Entity

The Watersmeet Township Board of Education ("Board") is the basic level of government which has financial accountability and control over all activities related to the public school education in the Township of Watersmeet. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Financial Reporting Entity (Continued)

In addition, there are no component units as defined in Governmental Accounting Standards Board Statement 14 which are included in the District's reporting entity.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's district-wide activities are considered governmental activities.

The District generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available. The District may defer the use of restricted assets based on a review of the specific transaction.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**District-wide and Fund Financial Statements
(Continued)**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**District-wide and Fund Financial Statements
(Continued)**

The following is applied for major fund qualification:

1. Total assets, liabilities, revenues, or expenditures/expenses (excluding extraordinary items) of an individual fund are at least 10% of the corresponding total for a fund type.
2. Total assets, liabilities, revenues, or expenditures/expenses (excluding extraordinary items) of an individual fund are at least 5% of the corresponding total for the total of all governmental and enterprise funds combined.

Assets, or any other element taken one at a time would have to pass both the 10% test and the 5% test for the fund to be considered a major fund.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation**

District-wide Statements

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the district-wide financial statements.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is measurable and available. Revenue is considered to be available if it is collected within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements (Continued)

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following governmental funds:

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements (Continued)

General Fund

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds.

All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

For district-wide reporting purposes, the General Fund is always a major fund.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements (Continued)

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes. The District uses the Special Revenue Funds to account for its Food Service, Athletic, and Nimrod Mania Funds.

For district-wide reporting purposes, the Food Service Fund is a major fund. The Athletic Fund and Nimrod Mania Fund are both non-major funds.

Debt Retirement Funds

These funds are used to account for the accumulated resources for, and the payment of, general long-term principal, interest, and related costs.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements (Continued)

Debt Retirement Funds (Continued)

On the district-wide financial statements, the Debt Service Energy Conservation Improvement Bond Fund is a non-major fund; the Debt Service Building and Site is a major fund.

Capital Projects Fund

This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities or other capital assets, including equipment.

The Capital Projects Fund is a non-major fund for reporting purposes.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund-based Statements (Continued)

Fiduciary Funds

These funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District presently maintains a Student Activities Fund (Agency Fund) and the Scholarship Fund (Private-Purpose Trust Fund).

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds".

Property Taxes

Property taxes are levied on July 01 and payable by September 15 each year. They are declared delinquent on March 01 of the following year. Property taxes are recognized when they become available.

The County of Gogebic purchases all delinquent real property taxes during the second quarter of each year, resulting in total collection of real property taxes each year.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Property Taxes (Continued)

Delinquent personal property taxes are recorded as receivable if considered to be collectible within 60 days after year end. For the year ended June 30, the School District levied 18.0000 operating mills (non-homestead only), and 3.7500 mills for building and site bonded debt on its taxable valuation of \$ 141,119,825.

State Revenue

The State of Michigan uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and School Code of Michigan.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

State Revenue (Continued)

The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts.

The State portion of the foundation is provided primarily by a State education property tax millage of 6.00 mills (on both homestead and non-homestead property) and an allocated portion of the State sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes levied at a rate of up to 18 mills.

The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2007 through August 2008.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

State Revenue (Continued)

The School District also receives revenue from the State to administer certain categorical education programs.

State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

State, general, and categorical aids are recognized as revenue in the entitlement year. Federal aids for reimbursable programs are recognized as revenues in the year related program expenditures are incurred. Aids received prior to meeting revenue recognition criteria are recorded as deferred revenues.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture commodities inventory received by the Food Service Fund is recorded as both revenue and expense in the year received. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the district-wide financial statements.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Capital Assets (Continued)

Capital assets are defined by the government as assets with an initial individual cost of more than \$ 1,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions.....20 - 50 years

Buses and other vehicles.....5- 10 years

Furniture and Other

Equipment.....5 - 20 years

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Contingent Liabilities

Employee Compensation and Related Liabilities

Payroll and related withholding and expenses which have been earned by School District employees but not paid as of June 30 are recorded as a liability on the School District's balance sheet.

Unemployment

The School District is a reimbursing employer to the Michigan Employment Security Administration and as such is responsible to pay the Administration for those benefits paid and charged to its account. As of June 30, appropriate liabilities have been recorded for all claims paid by the Administration. However, no provision has been made for future payments that might result from claims in process or un-filed.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Contingent Liabilities (Continued)

Compensated Absences

Sick Leave

Sick Leave can accrue for both instructional and non-instructional employees of the School District.

The various employment contracts and agreements covering the School District's personnel allow for the accumulation of earned sick leave as defined. Sick leave accumulates and vests only upon retirement. Employees who leave for any other reason forfeit this benefit. The details of each contract/agreement, as they relate to the accumulation of sick leave benefits, are summarized below:

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Contingent Liabilities (Continued)

Compensated Absences

Sick Leave (Continued)

Instructional/Administration

Teachers and administrators employed in the District for a minimum of 10 years shall receive, upon retirement, compensation for unused sick leave up to a maximum of 180 days, calculated at .09% of the highest salary x total unused sick days.

Support Staff

Members of the support staff accumulate sick leave at the rate of ½ of a prorated paid leave day for each pay period worked or on paid leave up to a maximum of 160 days.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Contingent Liabilities (Continued)

Compensated Absences

Sick Leave (Continued)

Support Staff (Continued)

A minimum of 10 years employment is required to qualify for termination payment, which is calculated at \$2.00 per hour for each regularly scheduled hour per day for up to the maximum total days accumulated.

Vested sick pay is recognized as a liability of the School District along with the associated costs of FICA and retirement.

At June 30, the School District's liability for accumulated sick leave and the related FICA and retirement costs is approximately \$ 95,506.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Non-Monetary Transactions

Federal financial assistance received by school districts may include claims for reimbursement on reimbursable meals and milk served, cash in lieu of commodities, USDA donated commodities (both bonus and entitlement), discounts and rebates for the value of USDA donated commodity ingredients contained in processed foods (end products) provided by the state and federal processing program, respectively, and other payments for administrative costs, etc.

The Single Audit Act of 1984, as amended, and OMB Circular A-133 defines federal financial assistance to include both monetary and non-monetary forms of assistance provided by or passed down from a federal agency, such as grants, contracts, loans, loan guarantees, property, etc.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Non-Monetary Transactions (Continued)

On this basis, the District recognizes the USDA value of donated commodities (bonus and non-bonus) received and expended in the amount of \$ 6,230 for entitlement commodities, and bonus commodities of \$ 151.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statements of net assets.

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond costs, during the current period, when applicable.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Long-Term Obligations (Continued)

Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Measurement Focus, Basis of Accounting and Financial
Statement Presentation (Continued)**

Fund Equity (Continued)

At June 30, the District had reserved fund balances as follows:

General Fund - Reserved for inventory -
\$1,127.

Debt Retirement Fund - Reserved for
debt services \$ 142,258.

Capital Projects Fund - Reserved for
capital projects \$ 75,665.

Food Services Fund - Reserved for food
services \$ 29,558.

Athletic Activity Fund - Reserved for
athletics \$ 5,276.

Nimrod Mania Fund - Reserved for
special programs \$ 71,167.

Scholarship Fund - Reserved for
scholarships \$ 45,234.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level.

State law requires the District to have its budget in place by July 01. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

**Excess of Expenditures Over Appropriations in
Budgetary Funds**

Budget Violations

P.A. 621 of 1978, SECTION 18 (1), as amended, provides a local unit shall not incur expenditures in excess of the amounts appropriated. Contrary to this provision, the total actual 2007-2008 expenditures for the following activities (cost-centers) exceeded the amended budget allocations by a total of \$ 24,437.

<u>ACTIVITY (COST CENTER)</u>	<u>OVER ACTUAL</u>	<u>BUDGET</u>	<u>EXPENDITURES</u>
<u>General Fund</u>			
Elementary	\$ 746238	\$ 743751	\$ 2487
High School	858909	855754	3155
Special Education	239266	238388	878
Title I	79537	79536	1
Library	49774	49773	1

(Continued on page 60)

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

**Excess of Expenditures Over Appropriations in
Budgetary Funds (Continued)**

Budget Violations (Continued)

(Continued from previous page)

<u>ACTIVITY (COST CENTER)</u>	<u>OVER ACTUAL</u>	<u>BUDGET</u>	<u>EXPENDITURES</u>
<u>General Fund (Continued)</u>			
Board of Education	\$ 35385	\$ 32534	\$ 2851
Executive Administration	151874	151308	566
Office of the Principal	137171	136718	453
Fiscal Services	63894	60996	2898
Operations & Maintenance	362897	360715	2182
<u>Food Service Fund</u>	182420	173455	8965

Fund Deficits

At June 30, 2008, the School District had no fund deficit in any fund.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of the federally insured banks, credit unions, and savings and loan associations that have an office in Michigan. The School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are comprised of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, Risk Disclosures for the Local Unit's Cash Deposits classifies cash according to three levels of risk.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

These three levels of risk are as follows:

Category 1

Deposits which are insured or collateralized with securities held by the School District or its agent in the School District's name.

Category 2

Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the School District's name.

Category 3

Deposits which are not collateralized or insured.

Based on these three levels of risk, the School District's cash deposits are classified as follows:

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Totals</u>
Cash and Deposits	\$ 249912	\$ -0-	\$ 716950	\$ 966862

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ 906703	\$ 60159	\$ 966862
Investments	<u>0</u>	<u>0</u>	<u>0</u>
Total	\$ <u>906703</u>	\$ <u>60159</u>	\$ <u>966862</u>

The breakdown between deposits and investments for the School District is as follows:

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (checking and savings accounts, certificates of deposit)	\$ 966689
Investment in securities, mutual funds, and similar Vehicles	0
Petty cash/Cash on hand	<u>173</u>
Total	\$ 966862

The deposits of the School District were reflected in the accounts of financial institutions at \$966,689 of which \$249,912 is covered by federal depository insurance.

INVESTMENTS

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Custodial risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities in the possession of an outside party.

Investments are categorized into these categories of credit risk:

Category 1 - Insured or registered, or securities held by the School District or its agent in the School District's name.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the School District's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the School District's name.

At June 30, 2008, the School District's investment balances were categorized as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Investments	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 4 – RECEIVABLES

Receivables as of year-end for the School District's individual major funds and the non-major and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Food Service</u>	<u>Non-major and Other Funds</u>	<u>Debt Service</u>	<u>Total</u>
Receivables:					
Taxes	\$ 4191	\$ -0-	\$ -0-	\$ 3446	\$ 7637
Intergovernmental	6094	1190	-0-	-0-	7284
Other	<u>-0-</u>	<u>272</u>	<u>-0-</u>	<u>-0-</u>	<u>272</u>
Total Receivables	\$ <u>10285</u>	\$ <u>1462</u>	\$ <u>-0-</u>	\$ <u>3446</u>	\$ <u>15193</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 4 – RECEIVABLES (CONTINUED)

Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grant and categorical aid payment not considered available	\$ -0-	\$ -0-
Payments received prior to meeting all eligibility requirements:	<u>-0-</u>	<u>-0-</u>
Total	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	Adjusted Balance July 01 2007	Additions	Disposals and Adjustments	Balance June 30 2008
Assets not being Depreciated				
Land	\$ 42000	\$ -0-	\$ -0-	\$ 42000
Capital assets being Depreciated				
Land Improvements	220821	-0-	-0-	220821
Building and building improvements	7492900	-0-	-0-	7492900
Machinery, Furniture and equipment	<u>705156</u>	<u>41701</u>	<u>-0-</u>	<u>746857</u>
Subtotal	\$ 8418877	\$ 41701	\$ -0-	\$ 8460578
Accumulated Depreciation :				
Land Improvements	57752	10122	-0-	67874
Building and building improvements	\$ 832960	\$ 147555	\$ -0-	\$ 980515

(Continued on page 69)

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 5 – CAPITAL ASSETS (CONTINUED)

(Continued from previous page)

	Adjusted Balance July 01 2007	Additions	Disposals and Adjustments	Balance June 30 2008
Accumulated Depreciation (Continued)				
Machinery, Furniture and equipment	\$ <u>407952</u>	\$ <u>39711</u>	\$ <u>-0-</u>	\$ <u>447663</u>
Subtotal	<u>1298664</u>	<u>197388</u>	<u>-0-</u>	<u>1496052</u>
Net capital assets being depreciated	<u>7120213</u>	<u>(155687)</u>	<u>-0-</u>	<u>6964526</u>
Net capital assets	\$ <u>7162213</u>	\$ <u>(155687)</u>	\$ <u>-0-</u>	\$ <u>7006526</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 6 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of inter-fund balances is as follows:

Do To/From Other Funds:

The amounts of inter-fund receivables and payables as of June 30, 2008 were as follows:

	Inter-fund Receivable	Inter-fund Payable
General Fund	\$ 4158	\$ 34353
Food Service	34353	-0-
Nimrod Mania	<u>-0-</u>	<u>4158</u>
Totals	\$ <u>38511</u>	\$ <u>38511</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 6 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

Do To/From Other Funds: (Continued)

	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
Summary by fund type:		
Major Funds	\$ 38511	\$ 34353
Non-major Funds	<u>-0-</u>	<u>4158</u>
Totals	\$ <u>38511</u>	\$ <u>38511</u>

The General Fund lends money to support the food service activities each year. Nimrod Mania has a payable to the General Fund for un-reimbursed operating costs. These amounts are both expected to clear after year-end.

Operating Transfers

Inter-fund transfers are the result of legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 6 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

Operating Transfers (Continued)

During the fiscal year ended June 30, 2008, the District authorized the following transfers:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -0-	\$ 145555
Athletic Fund	49436	-0-
Food Service Fund	69352	-0-
Debt Retirement Fund – Energy Conservation Improvement Bonds	<u>26767</u>	<u>-0-</u>
Totals	\$ <u>145555</u>	\$ <u>145555</u>

	<u>Transfers In</u>	<u>Transfers Out</u>
Summary by fund type:		
Major Funds	\$ 69352	\$ 145555
Non-major Funds	<u>76203</u>	<u>-0-</u>
Totals	\$ <u>145555</u>	\$ <u>145555</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 6 – INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

Operating Transfers (Continued)

Each year the General Fund transfers funds to the Food Service and Athletic Funds to support their programs, as they are not self-sustaining.

The General Fund also transfers funds to cover the cost of debt payments not provided for with debt service millage.

Other Financing Sources (Uses)

The transfers of cash between various District funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 7 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At June 30, 2008, the District's General Fund has no deferred revenue.

NOTE 8 – LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk obligations.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 8 – LONG-TERM DEBT (CONTINUED)

Long-term obligation activity can be summarized as follows:

	Adjusted Balance July 01, 2007	Additions	Deletions	Balance June 30, 2008
Long-Term Employee	\$	\$	\$	\$
Benefits Payable	76889	83207	19915	140181
2002 Building and Site				
Bonds	1030000	-0-	235000	795000
2003 Energy Conservation				
Improvement Bonds	320000	-0-	26667	293333
2006 Refunding Bonds	<u>5480000</u>	<u>-0-</u>	<u>15000</u>	<u>5465000</u>
Totals	\$ <u>6906889</u>	\$ <u>83207</u>	\$ <u>296582</u>	\$ <u>6693514</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 8 – LONG-TERM DEBT (CONTINUED)

**2003 Energy Conservation Improvement Bond
(General Obligation-Limited Tax)**

On December 19, 2003, the **Watersmeet Township School District** issued a Qualified Zone Academy Bond to borrow the sum of \$ 400,000 for the purpose of acquiring and constructing energy conservation improvements to the Watersmeet School. The interest rate is (0%). The principal amount of \$ 400,000 matures on December 19, 2018. The School District is required to set aside principal installments of \$ 26,666.67 on December 19 of each year starting in 2004, and continuing until the maturity date.

**2002 School Building and Site Bonds
(General Obligation Unlimited Tax)**

On March 25, 2002, the **Watersmeet Township School District** issued bonds to borrow the sum of \$7,040,000 for the purpose of erecting, furnishing, and equipping an addition to and partially remodeling, refurnishing, and re-equipping the Watersmeet School; acquiring and installing educational technology; constructing and equipping a playground; and acquiring land and developing and improving the site.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 8 – LONG-TERM DEBT (CONTINUED)

2002 School Building and Site Bonds

(General Obligation Unlimited Tax) (Continued)

On November 21, 2006, the District issued refunding bonds, which refunded a portion of the District's outstanding 2002 School Building and Site Bonds.

Interest is payable semi-annually on May 01 and November 01 of each year. Principal is payable on the first day of May.

The remaining obligation of the District on these bonds is as follows:

SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS					
	<u>May 01</u>		<u>November 01</u>	<u>Total</u>	<u>Interest Rate</u>
	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>		
2008	\$	\$	\$ 142543	\$ 142543	4.600%
2009	250000	142543	136793	529336	4.600%
2010	265000	136793	130698	532491	4.600%
2011	<u>280000</u>	<u>130698</u>	<u>124222</u>	<u>534920</u>	4.625%
Total	\$ 795000	\$ 410034	\$ 534256	\$ 1739290	

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 8 – LONG-TERM DEBT (CONTINUED)

2006 REFUNDING BOND

On November 21, 2006, the Watersmeet Township School District issued 2006 Refunding Bonds in the amount of \$5,480,000. The bonds are general obligation bonds of the District, and are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, on all taxable property within the boundaries of the School District. The proceeds of this issue were to be used for the purpose of refunding a portion of the School District's outstanding 2002 School Building and Site Bonds (General Obligation-Unlimited Tax), dated May 01, 2002.

The Bonds are fully qualified for the Michigan School Bond Qualification and Loan Program pursuant to Act 92, Public Acts of Michigan, 2005, as amended, enacted pursuant to Article IX, Section 16 of the Michigan Constitution of 1963. Under the terms of these constitutional and statutory provisions, if for any reason the School District is unable to pay the principal of and interest on the Bonds when due, then the School District shall borrow and the State of Michigan shall lend to it an amount sufficient to enable the School District to make the payment.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 8 – LONG-TERM DEBT (CONTINUED)

2006 REFUNDING BOND (Continued)

The scheduled payments of the principal and interest on the Bonds is as follows:

SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS				
	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Total</u>
11/01/2008	\$		\$ 109,237.50	\$ 109,237.50
05/01/2009	15,000.00	3.750%	109,237.50	124,237.50
11/01/2009			108,956.25	108,956.25
05/01/2010	15,000.00	3.750%	108,956.25	123,956.25
11/01/2010			108,675.00	108,675.00
05/01/2011	20,000.00	3.750%	108,675.00	128,675.00
11/01/2011			108,300.00	108,300.00
05/01/2012	315,000.00	4.000%	108,300.00	423,300.00
11/01/2012			102,000.00	102,000.00
05/01/2013	325,000.00	4.000%	102,000.00	427,000.00
11/01/2013			95,500.00	95,500.00
05/01/2014	340,000.00	4.000%	95,500.00	435,500.00
11/01/2014			88,700.00	88,700.00
05/01/2015	350,000.00	4.000%	88,700.00	438,700.00
11/01/2015			81,700.00	81,700.00

(Continued on page 80)

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 8 – LONG-TERM DEBT (CONTINUED)

2006 REFUNDING BOND (Continued)

SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS				
	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Total</u>
05/01/2016	\$ 350,000.00	4.000%	\$ 81,700.00	\$ 431,700.00
11/01/2016			74,700.00	74,700.00
05/01/2017	345,000.00	4.000%	74,700.00	419,700.00
11/01/2017			67,800.00	67,800.00
05/01/2018	345,000.00	4.000%	67,800.00	412,800.00
11/01/2018			60,900.00	60,900.00
05/01/2019	345,000.00	4.000%	60,900.00	405,900.00
11/01/2019			54,000.00	54,000.00
05/01/2020	340,000.00	4.000%	54,000.00	394,000.00
11/01/2020			47,200.00	47,200.00
05/01/2021	340,000.00	4.000%	47,200.00	387,200.00
11/01/2021			40,400.00	40,400.00
05/01/2022	340,000.00	4.000%	40,400.00	380,400.00
11/01/2022			33,600.00	33,600.00
05/01/2023	335,000.00	4.000%	33,600.00	368,600.00
11/01/2023			26,900.00	26,900.00
05/01/2024	335,000.00	4.000%	26,900.00	361,900.00
11/01/2024			20,200.00	20,200.00
05/01/2025	330,000.00	4.000%	20,200.00	350,200.00
11/01/2025			13,600.00	13,600.00
05/01/2026	335,000.00	4.000%	13,600.00	348,600.00
11/01/2026			6,900.00	6,900.00
05/01/2027	<u>345,000.00</u>	4.000%	<u>6,900.00</u>	<u>351,900.00</u>
Total	<u>\$5,465,000.00</u>		<u>\$2,498,537.50</u>	<u>\$7,963,537.50</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 8 – LONG-TERM DEBT (CONTINUED)

Long-Term Employee Benefits

Accrued Long-Term Sick Leave

On June 30, 2008, the District's estimated liability for long-term sick leave, plus the related costs of FICA, Medicare, and retirement was \$ 95,506.07.

Retirement Incentive

At June 30, 2008, the District's liability for Retirement Incentive payable, including related costs of FICA and Medicare was \$ 44,674.75, payable as follows:

2008-09	\$ 21,530.00
2009-10	11,303.25
2010-11	6,997.25
2011-12	1614.75
2012-13	1614.75
2013-14	<u>1614.75</u>
Total	\$ 44,674.75

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries(workers' compensation), as well as medical benefits provided to employees. The School District maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the School District. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three years.

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN

The School District contributes to the Michigan Public School Employees' Retirement system (MPERS), a cost-sharing multiple-employer defined benefit pension administered by the Michigan Department of Management and Budget, Office of Retirement Systems.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN

MPSERS provides retirement, survivor and disability benefits to public school employees. Eligibility and benefit provisions are governed under Public Act 136 of 1945, re-codified and currently operating under the provisions of Public Act 300 of 1980, as amended.

MPSERS issues a publicly available financial report that includes financial statements and required supplementary information.

The annual report may be obtained by calling (517) 322-5103 or by writing to:

<p>Department of Management and Budget Office of Retirement Systems P.O. Box 30673 Lansing, Michigan 48909-8103</p>
--

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN (CONTINUED)

The School District is required by state statute to contribute 17.74% of covered payroll from July 01 through September 30, 2007 and 16.72% from October 01, 2007 through June 30, 2008. Contributions to MPSERS are determined on an actuarial basis using the entry age normal actuarial cost method. Contribution requirements of plan members including the School District are established and may be amended only by state statute.

The School District's contributions to MPSERS for the year ending June 30, 2008, 2007, and 2006, were \$295,447.37, \$299,442, and \$259,723, respectively.

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 10 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN (CONTINUED)

Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. Contributions collected and remitted by the School District on behalf of MIP members for the years ending June 30, 2008, 2007, and 2006 were \$49,835.02, \$59,714, and \$56,011 respectively, equal to the required contributions for the year.

NOTE 11 - POST-EMPLOYMENT BENEFITS

In addition to the pension benefits, MPSERS provides comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of the retiree. The portion provided by MPSERS is factored into the pension contribution rate.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 12 - RELATED PARTY TRANSACTIONS

Related parties exist when there is a relationship that offers the potential for transactions at less than arm's length, favorable treatment, or the ability to influence the outcome of events differently from that which might result in the absence of that relationship.

Financial statements must include disclosure of material related party transactions, other than compensation arrangements, expense allowances and similar items in the ordinary course of business.

However, disclosure of transactions that are eliminated in the preparation of combined financial statements is not required in those statements.

On this basis, there were no related party transactions reported in the financial statements.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events have a material effect on the financial statements which requires adjustment or disclosure. They relate to events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

At fiscal year ended June 30, 2008, there were no subsequent events that would have a significant affect on the District's operations.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

JUNE 30, 2008

NOTE 14 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectibility of any related receivable at June 30, 2008 may be impaired.

In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

REQUIRED SUPPLEMENTAL INFORMATION

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL
<u>REVENUE</u>			
Local Sources	\$ 2,112,684	\$ 2,124,784	\$ 2,128,340
State Sources	223,683	86,156	99,626
Federal Sources	1,141,924	882,456	882,456
Interdistrict and Other Sources	-	-	-
TOTAL REVENUE	\$ 3,478,291	\$ 3,093,396	\$ 3,110,422
<u>EXPENDITURES - CURRENT</u>			
Instruction :			
Basic Programs	1,591,665	1,599,505	1,605,147
Added Needs	511,542	491,802	492,681
Supporting Services :			
Pupil	115,361	108,802	108,798
Instructional Staff	53,850	49,773	49,774
General Administration	199,020	183,842	187,259
School Administration	140,665	136,718	137,171
Business Services	70,700	60,996	63,894
Computer Services	45,421	51,234	51,233
Operation and Maintenance	369,225	360,715	362,897
Transportation	156,525	159,058	159,058
Other Supporting Services	-	-	-
TOTAL EXPENDITURES	\$ 3,253,974	\$ 3,202,445	\$ 3,217,912
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In		-	-
Operating Transfers Out	(223,817)	(195,555)	(145,555)
NET CHANGE IN FUND BALANCE	448,134	(304,604)	(253,045)
FUND BALANCE - BEGINNING OF YEAR	599,633	599,633	599,633
FUND BALANCE - END OF YEAR	\$ 1,047,767	\$ 295,029	\$ 346,588

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE – FOOD SERVICE

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL
<u>REVENUE</u>			
Local Sources	\$ 31,800	\$ 27,595	\$ 27,393
State Sources	15,500	15,556	15,724
Federal Sources	64,750	63,031	69,412
Miscellaneous	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUE	\$ 112,050	\$ 106,182	\$ 112,529
 <u>EXPENDITURES - CURRENT</u>			
Nonprofessional Salaries	40,000	55,730	55,730
Insurance	-	46,252	46,252
FICA/Retirement	-	15,143	15,143
Purchased Services	2,750	3,329	3,329
Supplies and Materials	63,850	52,444	61,410
Capital Outlay	-	-	-
Other	800	557	556
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	\$ 107,400	\$ 173,455	\$ 182,420
 <u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In	-	67,126	69,352
Operating Transfers Out	-	-	-
 NET CHANGE IN FUND BALANCE	4,650	(147)	(539)
 FUND BALANCE - BEGINNING OF YEAR	30,097	30,097	30,097
	<hr/>	<hr/>	<hr/>
FUND BALANCE - END OF YEAR	\$ 34,747	\$ 29,950	\$ 29,558
	<hr/>	<hr/>	<hr/>

The notes to the financial statements are an integral part of this report.

OTHER SUPPLEMENTAL INFORMATION

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

OTHER SUPPLEMENTAL INFORMATION

COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2008

	<u>Athletic Fund</u>	<u>Nimrod Mania Fund</u>
<u>ASSETS</u>		
Cash and Investments (Note 3)	\$ 5,276	\$ 40,948
Inventory	-	34,550
Due from Other Funds	-	-
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 5,276</u>	<u>\$ 75,498</u>
 <u>LIABILITIES AND FUND BALANCES</u>		
<u>Liabilities</u>		
Accounts Payable	-	-
Accrued Sales Tax	-	173
Due to Other Funds	-	4,158
	<u> </u>	<u> </u>
Total Liabilities	-	4,331
 <u>Fund Balances</u>		
Reserved for Athletics	5,276	-
Reserved for Debt Service	-	-
Reserved for Capital Projects	-	-
Reserved for Special Programs	-	71,167
Unreserved and Undesignated	-	-
	<u> </u>	<u> </u>
Total Fund Balances	5,276	71,167
 TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,276</u>	<u>\$ 75,498</u>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

OTHER SUPPLEMENTAL INFORMATION

COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2008

Debt Service Energy Conservation Improvement Bonds	Capital Projects LVD Projects	Total
<u> </u>	<u> </u>	<u> </u>
\$ -	\$ 75,665	\$ 121,889
-	-	34,550
<u> </u>	<u> </u>	<u> </u>
-	-	-
<u><u>\$ -</u></u>	<u><u>\$ 75,665</u></u>	<u><u>\$ 156,439</u></u>
-	-	-
-	-	173
<u> </u>	<u> </u>	<u>4,158</u>
-	-	4,331
-	-	5,276
-	-	-
-	75,665	75,665
-	-	71,167
<u> </u>	<u> </u>	<u> </u>
-	-	-
-	75,665	152,108
<u><u>\$ -</u></u>	<u><u>\$ 75,665</u></u>	<u><u>\$ 156,439</u></u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

OTHER SUPPLEMENTAL INFORMATION

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - NON-MAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2008

	<u>Athletic Fund</u>	<u>Nimrod Mania Fund</u>
<u>Revenue</u>		
Local Revenue	\$ 9,998	\$ 69,838
State Revenue	-	-
Federal Revenue	-	-
Interdistrict and Other Revenue	-	-
Miscellaneous	-	-
	<hr/>	<hr/>
Total Revenue	\$ 9,998	\$ 69,838
<u>Expenditures</u>		
Current:		
Athletics	59,397	-
Retail Sales	-	73,475
Debt Service		
Principal	-	-
Interest and Fees	-	-
Other Costs	-	-
Special Projects	-	-
Capital Outlay	-	-
	<hr/>	<hr/>
Total Expenditures	\$ 59,397	\$ 73,475
Excess (Deficiency) of Revenues Over Expenditures	(49,399)	(3,637)
<u>Other Financing Sources (Uses)</u>		
Unrealized gains (losses)	-	-
Operating transfers in	49,436	-
Operating transfers out	-	-
	<hr/>	<hr/>
Total Other Financing Sources (Uses)	49,436	-
Net Change in Fund Balances	37	(3,637)
FUND BALANCE - BEGINNING OF YEAR	5,239	74,804
	<hr/>	<hr/>
FUND BALANCE - END OF YEAR	\$ 5,276	\$ 71,167
	<hr/>	<hr/>

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

OTHER SUPPLEMENTAL INFORMATION

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES NON-MAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2008

Debt Service Energy Conservation Improvement Bonds	Capital Projects LVD Projects	Total
\$ -	\$ 6,043	\$ 85,879
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
\$ -	\$ 6,043	\$ 85,879
-	-	59,397
-	-	73,475
-	-	-
26,667	-	26,667
100	-	100
-	3,717	3,717
-	-	-
-	1,524	1,524
\$ 26,767	\$ 5,241	\$ 164,880
(26,767)	802	(79,001)
-	-	-
26,767	-	76,203
-	-	-
26,767	-	76,203
-	802	(2,798)
-	74,863	154,906
<u>\$ -</u>	<u>\$ 75,665</u>	<u>\$ 152,108</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

ALL SPECIAL REVENUE FUNDS – COMBINING BALANCE SHEET

JUNE 30, 2008

<u>ASSETS</u>	<u>FOOD SERVICES FUND</u>	<u>ATHLETIC ACTIVITY FUND</u>	<u>NIMROD MANIA FUND</u>	<u>TOTAL</u>
Cash and Deposits	\$ 6,255	\$ 5,276	\$ 40,948	\$ 52,479
Accounts Receivable - State	1,190	-	-	1,190
Accounts Receivable - Other	272	-	-	272
Inventory	2,804	-	34,550	37,354
Due From Other Funds	34,353	-	-	34,353
TOTAL ASSETS	<u>\$ 44,874</u>	<u>\$ 5,276</u>	<u>\$ 75,498</u>	<u>\$ 125,648</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>LIABILITIES</u>				
Accrued Sales Tax	-	-	173	173
Due to Other Funds	-	-	4,158	4,158
Due to State of Michigan	15,316	-	-	15,316
TOTAL LIABILITIES	<u>\$ 15,316</u>	<u>\$ -</u>	<u>\$ 4,331</u>	<u>\$ 19,647</u>
<u>FUND EQUITY</u>				
Fund Balance - Reserved	29,558	5,276	71,167	106,001
TOTAL FUND EQUITY	<u>29,558</u>	<u>5,276</u>	<u>71,167</u>	<u>106,001</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 44,874</u>	<u>\$ 5,276</u>	<u>\$ 75,498</u>	<u>\$ 125,648</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**ALL SPECIAL REVENUE FUNDS - COMBINING SUPPLEMENTAL SCHEDULE OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

FISCAL YEAR ENDED JUNE 30, 2008

	FOOD SERVICES FUND	ATHLETIC ACTIVITY FUND	NIMROD MANIA FUND	TOTAL
<u>REVENUES</u>				
<u>LOCAL SOURCES</u>				
Food Sales	\$ 24,363	\$ -	\$ -	\$ 24,363
Admissions and Other	1,935	9,998	69,186	81,119
Interest	1,095	-	652	1,747
<u>STATE SOURCES</u>				
Restricted Grants	15,724	-	-	15,724
<u>FEDERAL SOURCES</u>				
Restricted Grants - Received Through the State	69,412	-	-	69,412
TOTAL REVENUES	\$ 112,529	\$ 9,998	\$ 69,838	\$ 192,365
<u>OTHER FINANCING SOURCES</u>				
<u>FUND MODIFICATIONS :</u>				
Transfer From General Fund	69,352	49,436	-	118,788
TOTAL REVENUES AND OTHER FINANCING SOURCES	181,881	59,434	69,838	311,153
<u>EXPENDITURES</u>				
Professional Salaries	-	20,725	-	20,725
Nonprofessional Salaries	55,730	10,198	10,528	65,928
Insurance	46,252	-	-	46,252
FICA/Retirement	15,143	7,544	2,609	22,687
Purchased Services	3,329	16,188	15,103	19,517
Supplies and Materials	61,410	2,415	40,757	63,825
Capital Outlay	-	-	-	-
Other	556	2,327	3,578	6,461
Program Support	-	-	900	900
TOTAL EXPENDITURES	\$ 182,420	\$ 59,397	\$ 73,475	\$ 315,292
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(539)	37	(3,637)	(4,139)
FUND BALANCE, JULY 1	30,097	5,239	74,804	110,140
FUND BALANCE, JUNE 30	\$ 29,558	\$ 5,276	\$ 71,167	\$ 106,001

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

ALL DEBT RETIRMENT FUNDS - COMBINING BALANCE SHEET

JUNE 30, 2008

	BUILDING AND SITE FUND	ENERGY CONSERVATION IMPROVEMENT BONDS FUND	TOTAL
<u>ASSETS</u>			
Cash and Deposits	\$ 138,812	\$ -	\$ 138,812
Delinquent Taxes Receivable	3,446	-	3,446
TOTAL ASSETS	<u>\$ 142,258</u>	<u>\$ -</u>	<u>\$ 142,258</u>
 <u>FUND EQUITY</u>			
Fund Balance, Reserved	142,258	-	142,258
TOTAL FUND EQUITY	<u>\$ 142,258</u>	<u>\$ -</u>	<u>\$ 142,258</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**ALL DEBT RETIRMENT FUNDS - COMBINING SUPPLEMENTAL SCHEDULE OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

FISCAL YEAR ENDED JUNE 30, 2008

	BUILDING AND SITE FUND	ENERGY CONSERVATION IMPROVEMENT BONDS FUND	TOTAL
<u>REVENUES</u>			
Property Taxes	\$ 530,487	\$ -	\$ 530,487
Interest & Penalties on Taxes	2,703	-	2,703
Other Taxes	4,805	-	4,805
Interest on Investments	9,790	-	9,790
Other Revenue	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	\$ 547,785	\$ -	\$ 547,785
<u>EXPENDITURES</u>			
Principal	250,000	26,667	276,667
Interest and Fees	265,904	100	266,004
Other	2,729	-	2,729
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	\$ 518,633	\$ 26,767	\$ 545,400
Excess of Revenues Over (Under) Expenditures	29,152	(26,767)	2,385
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfer In - General Fund	-	26,767	26,767
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	\$ -	\$ 26,767	\$ 26,767
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	29,152	-	29,152
FUND BALANCE, JULY 1	<hr/> 113,106	<hr/> -	<hr/> 113,106
FUND BALANCE, JUNE 30	<hr/>\$ 142,258	<hr/>\$ -	<hr/>\$ 142,258

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

GENERAL FUND - COMPARATIVE BALANCE SHEET

JUNE 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and Deposits	639,747	\$ 829,268
Prepaid Expenses	-	10,985
Taxes Receivable	4,191	6,678
Accounts Receivable :		
Federal	-	-
State	6,094	20,676
Other	-	-
Inventory	1,127	304
Due From Other Funds	<u>4,158</u>	<u>29,158</u>
TOTAL ASSETS	<u>\$ 655,317</u>	<u>\$ 897,069</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accrued Benefits	106,858	94,940
Accounts Payable	2,881	-
Salaries Payable	164,637	159,562
Deferred Revenue	-	-
Due To Other Funds	<u>34,353</u>	<u>42,934</u>
TOTAL LIABILITIES	308,729	297,436
 <u>FUND EQUITY</u>		
Fund Balance, Reserved for Inventory	1,127	-
Fund Balance, Unreserved & Undesignated	<u>345,461</u>	<u>599,633</u>
TOTAL FUND EQUITY	346,588	599,633
 TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 655,317</u>	<u>\$ 897,069</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

GENERAL FUND - SUPPLEMENTAL SCHEDULE OF REVENUES – ACTUAL COMPARED TO BUDGET

FISCAL YEAR ENDED JUNE 30, 2008

(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	FISCAL YEAR ENDED JUNE 30, 2008			FISCAL YEAR ENDED 6/30/07
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>REVENUES</u>				
<u>LOCAL SOURCES</u>				
Current Tax Levy	\$ 1,897,709	\$ 1,894,987	\$ 2,722	\$ 1,698,251
Other Taxes/PILT/CFR	16,706	19,320	(2,614)	16,195
Penalties and Interest on Taxes	10,889	10,586	303	8,677
Interest Income	39,818	39,047	771	57,993
Other Local Revenue	163,218	160,844	2,374	70,803
TOTAL REVENUES FROM LOCAL SOURCES	\$ 2,128,340	\$ 2,124,784	\$ 3,556	\$ 1,851,919
<u>STATE SOURCES</u>				
State School Aid	28,514	19,038	9,476	165,758
Special Education	71,112	67,118	3,994	62,018
At Risk	-	-	-	73,530
Middle School Math/Science	-	-	-	2,762
TOTAL REVENUES FROM STATE SOURCES	99,626	86,156	13,470	304,068
<u>FEDERAL SOURCES</u>				
Public Law 81-874				
School Assistance	583,753	583,753	-	810,678
Title I	45,798	45,798	-	46,987
Title II A	11,015	11,015	-	11,200
Title II D	427	427	-	482
Title V	805	805	-	879
Title VI REAP	22,247	22,247	-	23,075
CIMS Grant	-	-	-	4,000
Reading First Grant	139,725	139,725	-	130,000
Schools and Roads Grant	78,686	78,686	-	80,905
TOTAL REVENUES FROM FEDERAL SOURCES	882,456	882,456	-	1,108,206
TOTAL REVENUES	\$ 3,110,422	\$ 3,093,396	\$ 17,026	\$ 3,264,193

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND - SUPPLEMENTAL SCHEDULE OF REVENUES – ACTUAL COMPARED TO
BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	FISCAL YEAR ENDED JUNE 30, 2008			FISCAL YEAR ENDED 6/30/07
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
OTHER FINANCING SOURCES				
Payments From Other				
Governmental Units :				
Federal Sources	\$ -	\$ -	\$ -	\$ -
State Sources	-	-	-	-
Other Sources	-	-	-	-
Transfers from Other Funds			-	78,181
 TOTAL OTHER FINANCING SOURCES	 -	 -	 -	 78,181
 TOTAL REVENUES AND OTHER FINANCING SOURCES	 \$ 3,110,422	 \$ 3,093,396	 \$ 17,026	 \$ 3,342,374

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED TO BUDGET

FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

<u>INSTRUCTION</u>	<u>FISCAL YEAR ENDED JUNE 30, 2008</u>			<u>FISCAL YEAR ENDED 06/30/07</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	
BASIC PROGRAMS				
<u>Elementary</u>				
Professional Salaries	\$ 401,505	\$ -	\$ -	\$ 420,928
Nonprofessional Salaries	20,686			15,151
Insurance	148,590	-	-	144,477
FICA/Retirement	112,342			125,659
Other Benefits	3,323	-	-	853
Purchased Services	12,941			9,251
Supplies and Materials	19,093	-	-	59,763
Capital Outlay	26,073			6,006
Other	1,685	-	-	4,333
Total Elementary	746,238	743,751	(2,487)	786,421
<u>High School</u>				
Professional Salaries	\$ 530,011	\$ -	\$ -	\$ 523,132
Insurance	130,732			129,122
FICA/Retirement	132,835	-	-	140,127
Other Benefits	3,992			868
Purchased Services	25,473	-	-	13,921
Supplies and Materials	35,662			33,250
Capital Outlay	-			-
Other	204	-	-	703
Total High School	858,909	855,754	(3,155)	841,123
TOTAL BASIC PROGRAMS	\$ 1,605,147	\$ 1,599,505	\$ (5,642)	\$1,627,544
ADDED NEEDS				
<u>Special Education</u>				
Professional Salaries	\$ 122,176	\$ -	\$ -	\$ 99,605
Nonprofessional Salaries	29,671			29,262
Insurance	46,165	-	-	47,997
FICA/Retirement	36,983			32,602
Other Benefits	1,149	-	-	112
Purchased Services	125			110
Supplies and Materials	2,997	-	-	8,998
Capital Outlay	-			-
Other	-	-	-	1,275
Total Special Education	\$ 239,266	\$ 238,388	\$ (878)	\$ 219,961

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED
TO BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

<u>INSTRUCTION (Continued)</u>	FISCAL YEAR ENDED JUNE 30, 2008			FISCAL YEAR ENDED 06/30/07
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
Added Needs (Continued)				
<u>At Risk Program</u>				
Professional Salaries	\$ 25,426	\$ -	\$ -	\$ 53,695
Insurance	1,292			18,269
FICA/Retirement	7,435	-	-	13,816
Total At Risk Program	34,153	34,153	-	85,780
<u>Compensatory Education</u>				
<u>Title I</u>				
Professional Salaries	\$ 29,607	\$ -	\$ -	\$ 8,140
Nonprofessional Salaries	11,492			19,686
Insurance	21,403	-	-	14,312
FICA/Retirement	12,376			6,083
Purchased Services	2,256	-	-	2,453
Supplies and Materials	2,403			3,007
Other	-	-	-	-
Total Compensatory Education	79,537	79,536	(1)	53,681
<u>Reading First Program</u>				
Professional Salaries	\$ 61,232	\$ -	\$ -	\$ 52,047
Nonprofessional Salaries	1,760		-	2,721
Insurance	16,052	-	-	15,148
FICA/Retirement	13,627			16,271
Purchased Services	7,670	-	-	8,999
Supplies and Materials	21,711			16,887
Capital Outlay	-			3,047
Other	17,673	-	-	14,880
Total Reading First Program	139,725	139,725	-	130,000
 TOTAL ADDED NEEDS	 492,681	 491,802	 (879)	 489,422
 TOTAL INSTRUCTION	 \$ 2,097,828	 \$ 2,091,307	 \$ (6,521)	 \$2,116,966

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND -SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED
TO BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	FISCAL YEAR ENDED JUNE 30, 2008			FISCAL YEAR ENDED 06/30/07
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>SUPPORTING SERVICES</u>				
<u>STUDENT SERVICES</u>				
<u>Guidance</u>				
Professional Salaries	\$ 52,895	\$ -	\$ -	\$ 45,620
Insurance	8,384			8,236
FICA/Retirement	13,498	-	-	12,054
Other Benefits	47		-	-
Purchased Services	459			402
Supplies and Materials	175			860
Other		-	-	202
Total Guidance	\$ 75,458	\$ 75,461	\$ 3	\$ 67,374
<u>Health</u>				
Professional Salaries	\$ 14,533	\$ -	\$ -	\$ 13,999
Insurance	7,987			8,175
FICA/Retirement	8,644	-	-	8,683
Other Benefits	479			178
Purchased Services	981	-	-	1,194
Supplies and Materials	702			367
Other	14	-	-	394
Total Health	33,340	33,341	1	32,990
TOTAL STUDENT SERVICES	\$ 108,798	\$ 108,802	\$ 4	\$ 100,364
<u>INSTRUCTIONAL STAFF</u>				
<u>Library</u>				
Professional Salaries	\$ 11,596	\$ -	\$ -	\$ 9,572
Nonprofessional Salaries	16,280			15,997
Insurance	10,718	-	-	10,484
FICA/Retirement	6,248			6,455
Other Benefits	700	-	-	237
Purchased Services	2,818			1,774
Supplies and Materials	1,414			1,604
Other		-	-	154
Total Library	49,774	49,773	(1)	46,277
TOTAL INSTRUCTIONAL STAFF	\$ 49,774	\$ 49,773	\$ (1)	\$ 46,277

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED
TO BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

<u>SUPPORTING SERVICES (Continued)</u>	FISCAL YEAR ENDED JUNE 30, 2008			FISCAL YEAR ENDED 06/30/07
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
GENERAL ADMINISTRATION				
<u>Board of Education</u>				
Nonprofessional Salaries	\$ 2,670	\$ -	\$ -	\$ 3,660
Insurance	-			-
Purchased Services	25,145			27,635
Other	7,570	-	-	2,928
Total Board of Education	\$ 35,385	\$ 32,534	\$ (2,851)	\$ 34,223
<u>Executive Administration</u>				
Professional Salaries	\$ 41,329	\$ -	\$ -	\$ 41,669
Nonprofessional Salaries	48,367			48,084
Insurance	20,790	-	-	19,796
FICA/Retirement	22,934			22,676
Other Benefits	3,214	-	-	2,516
Purchased Services	1,002			2,945
Supplies and Materials	6,902	-	-	4,613
Capital Outlay				-
Other	7,336	-	-	8,770
Total Executive Administration	151,874	151,308	(566)	151,069
	-			
TOTAL GENERAL ADMINISTRATION	\$ 187,259	\$ 183,842	\$ (3,417)	\$ 185,292
SCHOOL ADMINISTRATION				
<u>Office of the Principal</u>				
Professional Salaries	\$ 41,330	\$ -	\$ -	\$ 41,669
Nonprofessional Salaries	35,385			32,724
Insurance	23,150	-	-	19,702
FICA/Retirement	19,726			19,561
Other Benefits	2,730			1,628
Purchased Services	459	-	-	402
Supplies and Materials	4,643			3,483
Capital Outlay	7,536			-
Other	2,212	-	-	10,680
Total Office of the Principal	137,171	136,718	(453)	129,849
TOTAL SCHOOL ADMINISTRATION	\$ 137,171	\$ 136,718	\$ (453)	\$ 129,849

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED
TO BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

SUPPORTING SERVICES (Continued)	FISCAL YEAR ENDED JUNE 30, 2008			FISCAL YEAR ENDED 06/30/07
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
BUSINESS SERVICES				
<u>Fiscal Services</u>				
Nonprofessional Salaries	\$ 40,449	\$ -	\$ -	\$ 40,308
Insurance	8,043			6,909
FICA/Retirement	9,957	-	-	10,089
Tax Judgements/Chargebacks	5,445			2,857
TOTAL BUSINESS SERVICES	\$ 63,894	\$ 60,996	\$ (2,898)	\$ 60,163
 COMPUTER SERVICES				
Professional Salaries	\$ 4,171	\$ -	\$ -	\$ 4,050
FICA/Retirement	1,022			1,022
Purchased Services	32,022	-	-	28,083
Supplies and Materials	14,018			9,328
Capital Outlay	-	-	-	1,447
TOTAL COMPUTER SERVICES	51,233	51,234	1	43,930
		-		
 OPERATION AND MAINTENANCE				
Nonprofessional Salaries	\$ 102,479	\$ -	\$ -	\$ 97,933
Insurance	61,837			66,995
FICA/Retirement	25,098	-	-	24,514
Other Benefits	3,626			1,043
Purchased Services	125,703			150,040
Supplies and Materials	32,610	-	-	14,550
Capital Outlay	6,568			-
Other	4,976	-	-	6,070
TOTAL OPERATION AND MAINTENANCE	\$ 362,897	\$ 360,715	\$ (2,182)	\$ 361,145
				-
 PUPIL TRANSPORTATION				
Purchased Services	159,058		-	150,836
TOTAL PUPIL TRANSPORTATION	159,058	159,058	-	150,836
 TOTAL SUPPORTING SERVICES	\$ 1,120,084	\$ 1,111,138	\$ (8,946)	\$1,077,856
 TOTAL EXPENDITURES	\$ 3,217,912	\$ 3,202,445	\$ (15,467)	\$3,194,822

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**GENERAL FUND - SUPPLEMENTAL SCHEDULE OF EXPENDITURES – ACTUAL COMPARED
TO BUDGET
(CONTINUED)**

FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	FISCAL YEAR ENDED JUNE 30, 2008			FISCAL YEAR ENDED 06/30/07
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>OTHER FINANCING USES</u>				
<u>Fund Modifications</u>				
Transfer To Food Service Fund	\$ 69,352	\$ 119,352	\$ 50,000	\$ 75,834
Transfer To Athletic Fund	49,436	49,436	-	60,025
Transfer To Debt Retirement Fund	26,767	26,767	-	26,767
Transfer To Capital Projects Fund	-	-	-	-
Total Fund Modifications	145,555	195,555	50,000	162,626
 TOTAL OTHER FINANCING USES	 \$ 145,555	 \$ 195,555	 \$ 50,000	 \$ 162,626
 TOTAL EXPENDITURES AND OTHER FINANCING USES	 \$ 3,363,467	 \$ 3,398,000	 \$ 34,533	 \$3,357,448

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

SPECIAL REVENUE FUND – FOOD SERVICE FUND – COMPARATIVE BALANCE SHEET

JUNE 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and Deposits	\$ 6,255	\$ 12,941
Accounts Receivable - State	1,190	1,217
Accounts Receivable	272	475
Inventory	2,804	3,163
Due From Other Funds	<u>34,353</u>	<u>42,934</u>
TOTAL ASSETS	<u>\$ 44,874</u>	<u>\$ 60,730</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accrued Sales Tax	-	-
Due to State of Michigan	<u>15,316</u>	<u>30,633</u>
TOTAL LIABILITIES	15,316	30,633
<u>FUND EQUITY</u>		
Fund Balance - Reserved	<u>29,558</u>	<u>30,097</u>
TOTAL FUND EQUITY	29,558	30,097
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 44,874</u>	<u>\$ 60,730</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT

**SPECIAL REVENUE FUND – FOOD SERVICE - STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE - ACTUAL COMPARED TO BUDGET**

FISCAL YEAR ENDED JUNE 30, 2008

(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	FISCAL YEAR ENDED JUNE 30, 2008			FISCAL YEAR ENDED 6/30/07
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>REVENUES</u>				
<u>LOCAL SOURCES</u>				
Student Breakfast / Lunches	\$ 20,237	\$ 20,440	\$ (203)	\$ 23,835
Adult Lunches	4,126	4,126	-	3,973
Interest	1,095	1,095	-	1,160
Other	1,935	1,934	1	1,168
TOTAL LOCAL SOURCES	27,393	27,595	(202)	30,136
<u>STATE SOURCES</u>				
School Lunch Program	15,724	15,556	168	12,642
<u>FEDERAL SOURCES</u>				
Federal Aid	63,031	63,031	-	66,911
USDA Commodities/Bonus	6,381	-	6,381	8,042
TOTAL FEDERAL SOURCES	69,412	63,031	6,381	74,953
TOTAL REVENUES	112,529	106,182	6,347	117,731
<u>OTHER FINANCING SOURCES</u>				
<u>FUND MODIFICATIONS :</u>				
Transfer From General Fund	69,352	67,126	2,226	75,834
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 181,881	\$ 173,308	\$ 8,573	\$ 193,565
<u>EXPENDITURES</u>				
Nonprofessional Salaries	55,730			56,986
Insurance	46,252			42,379
FICA/Retirement	15,143			15,972
Purchased Services	3,329			1,332
Supplies and Materials	61,410			66,500
Capital Outlay	-			-
Other	556			786
TOTAL EXPENDITURES	182,420	173,455	(8,965)	183,955
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(539)	(147)	(2,618)	9,610
FUND BALANCE, JULY 1	30,097			20,487
FUND BALANCE, JUNE 30	\$ 29,558			\$ 30,097

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

SPECIAL REVENUE FUND – ATHLETIC ACTIVITY FUND – COMPARATIVE BALANCE SHEET

JUNE 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and Deposits	<u>\$ 5,276</u>	<u>\$ 5,239</u>
TOTAL ASSETS	<u>\$ 5,276</u>	<u>\$ 5,239</u>
<u>FUND EQUITY</u>		
Fund Balance, Reserved	<u>5,276</u>	<u>5,239</u>
TOTAL FUND EQUITY	<u>\$ 5,276</u>	<u>\$ 5,239</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**SPECIAL REVENUE FUND – ATHLETIC ACTIVITY FUND - STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE - ACTUAL COMPARED TO BUDGET**

FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	FISCAL YEAR ENDED JUNE 30, 2008			FISCAL YEAR ENDED 06/30/07
	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	
<u>REVENUES</u>				
LOCAL SOURCES				
Admissions	\$ 9,546	\$ 9,546	\$ -	\$ 11,424
Donations	-	-	-	2,000
Other Revenue	452	453	(1)	466
TOTAL LOCAL SOURCES	9,998	9,999	(1)	13,890
<u>OTHER FINANCING SOURCES</u>				
Transfer from General Fund	49,436	49,436	-	60,025
TOTAL REVENUES AND OTHER FINANCING SOURCES	59,434	59,435	(1)	73,915
<u>EXPENDITURES</u>				
Professional Salaries	20,725	-	-	22,127
Nonprofessional Salaries	10,198			10,291
FICA/Retirement	7,544			8,173
Purchased Services	16,188	-	-	18,976
Supplies and Materials	2,415			7,889
Capital Outlay	-			-
Other	2,327	-	-	6,099
TOTAL EXPENDITURES	59,397	59,824	427	73,555
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	37	(389)	426	360
FUND BALANCE, JULY 1	5,239			4,879
FUND BALANCE, JUNE 30	\$ 5,276			\$ 5,239

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

SPECIAL REVENUE FUND – NIMROD MANIA FUND – COMPARATIVE BALANCE SHEET

JUNE 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and Deposits	\$ 40,948	\$ 70,296
Inventory	34,550	34,008
Accounts Receivable	-	-
TOTAL ASSETS	<u>\$ 75,498</u>	<u>\$ 104,304</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Accrued Sales Tax	173	342
Due to General Fund	<u>4,158</u>	<u>29,158</u>
TOTAL LIABILITIES	4,331	29,500
<u>FUND EQUITY</u>		
Fund Balance - Reserved for Special Programs	<u>71,167</u>	<u>74,804</u>
TOTAL FUND EQUITY	71,167	74,804
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 75,498</u>	<u>\$ 104,304</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**SPEICAL REVENUE FUND – NIMROD MANIA FUND - STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE - ACTUAL COMPARED TO BUDGET**

FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	<u>FISCAL YEAR ENDED JUNE 30, 2008</u>			FISCAL YEAR ENDED <u>6/30/07</u>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE Favorable (Unfavorable)</u>	
<u>REVENUES</u>				
Sales	\$ 69,186	\$ 70,282	\$ (1,096)	\$ 65,523
Donations	-	-	-	160
Interest	652	62	590	2,227
Miscellaneous	-	-	-	-
TOTAL REVENUES	\$ 69,838	\$ 70,344	(506)	\$ 67,910
<u>EXPENDITURES</u>				
Nonprofessional Salaries	\$ 10,528	\$ -	\$ -	\$ 26,302
FICA/Retirement	2,609			2,856
Purchased Services	15,103			51,799
Supplies and Materials	40,757			31,446
Other	3,578			3,905
Program Support :				
Athletics	-			4,000
Building and Grounds	-			1,826
Educational	-			651
Scholarship	900			500
TOTAL EXPENDITURES	\$ 73,475	\$ 74,193	\$ 718	\$123,285
Excess of Revenues Over (Under) Expenditures	(3,637)	(3,849)	212	(55,375)
FUND BALANCE, JULY 1	<u>74,804</u>			<u>130,179</u>
FUND BALANCE, JUNE 30	<u>\$ 71,167</u>			<u>\$ 74,804</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

DEBT RETIRMENT FUND – BUILDING AND SITE - COMPARATIVE BALANCE SHEET

JUNE 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and Deposits	\$ 138,812	\$ 109,808
Delinquent Taxes Receivable	<u>3,446</u>	<u>3,298</u>
TOTAL ASSETS	<u>\$ 142,258</u>	<u>\$ 113,106</u>
<u>FUND EQUITY</u>		
Fund Balance, Reserved	<u>142,258</u>	<u>113,106</u>
TOTAL FUND EQUITY	<u>\$ 142,258</u>	<u>\$ 113,106</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**DEBT RETIREMENT FUND – BUILDING AND SITE – COMPARATIVE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
<u>REVENUES</u>		
Property Taxes	\$ 530,487	\$ 521,654
Interest & Penalties on Taxes	2,703	2,886
Other Taxes	4,805	4,976
Interest on Investments	9,790	10,823
Other Revenue	<u>-</u>	<u>3,882</u>
TOTAL REVENUES	\$ 547,785	\$ 544,221
 <u>EXPENDITURES</u>		
Building and Site Bonds		
Principal	\$ 250,000	\$ 5,530,000
Interest and Fees	265,904	341,143
Other	<u>2,729</u>	<u>1,944</u>
TOTAL EXPENDITURES	\$ 518,633	\$ 5,873,087
 Excess of Revenues and Other Financing Sources Over (Under) Expenditures	 29,152	 (5,328,866)
 OTHER FINANCING SOURCES (USES)		
Bond Proceeds	-	5,480,000
Cost of Issuance - Refunding Bonds	-	(170,000)
 FUND BALANCE, JULY 1	 <u>113,106</u>	 <u>131,972</u>
FUND BALANCE, JUNE 30	<u>\$ 142,258</u>	<u>\$ 113,106</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**DEBT RETIRMENT FUND – ENERGY CONSERVATION IMPROVEMENT BONDS –
COMPARATIVE BALANCE SHEET**

JUNE 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL ASSETS	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
<u>FUND EQUITY</u>		
Fund Balance	<u>-</u>	<u>-</u>
TOTAL FUND EQUITY	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**DEBT RETIRMENT FUND – ENERGY CONSERVATION IMPROVEMENT BONDS -
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2008
(With comparative Totals for Fiscal Year Ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
<u>REVENUES</u>	\$ -	\$ -
TOTAL REVENUES	\$ -	\$ -
<u>OTHER FINANCING SOURCES</u>		
Transfer In - General Fund	<u>26,767</u>	<u>26,767</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	26,767	26,767
<u>EXPENDITURES</u>		
Principal	26,667	26,667
Interest	-	-
Other	<u>100</u>	<u>100</u>
TOTAL EXPENDITURES	26,767	26,767
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	-	-
FUND BALANCE, JULY 1	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

CAPITAL PROJECTS FUND – LVD PROJECTS – COMPARATIVE BLANCE SHEET

JUNE 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and Deposits	\$ 75,665	\$ 67,509
Accounts Receivable	<u>-</u>	<u>7,354</u>
TOTAL ASSETS	<u>\$ 75,665</u>	<u>\$ 74,863</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES</u>		
Due To Other Funds	-	-
Accounts Payable	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	-	-
 <u>FUND EQUITY</u>		
Fund Balance, Reserved	<u>75,665</u>	<u>74,863</u>
TOTAL FUND EQUITY	75,665	74,863
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 75,665</u>	<u>\$ 74,863</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**CAPITAL PROJECTS FUND – LVD PROJECTS – STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE**

FISCAL YEAR ENDED JUNE 30, 2008
(With Comparative Totals for Fiscal Year Ended June 30, 2007)

	<u>2008</u>	<u>2007</u>
<u>REVENUES</u>		
Grant Income	\$ 5,347	\$ 86,582
Interest	<u>696</u>	<u>746</u>
TOTAL REVENUES	\$ 6,043	\$ 87,328
 <u>EXPENDITURES</u>		
Capital Outlay	1,524	30,121
Other Costs	<u>3,717</u>	<u>140</u>
TOTAL EXPENDITURES	5,241	30,261
 Excess of Revenues Over (Under) Expenditures	 802	 57,067
 OTHER FINANCING SOURCES (USES)		
Operating Transfer Out		(78,181)
 Excess of Revenues Over (Under) Expenditures and Other Financing Uses	 802	 (21,114)
 FUND BALANCE, JULY 1	 <u>74,863</u>	 <u>95,977</u>
FUND BALANCE, JUNE 30	<u>\$ 75,665</u>	<u>\$ 74,863</u>

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

TRUST AND AGENCY FUND - BALANCE SHEET

JUNE 30, 2008

ASSETS

Cash and Deposits	\$ 60,159
TOTAL ASSETS	\$ 60,159

LIABILITIES AND FUND BALANCE

LIABILITIES

Due To Student Groups and Other	14,925
TOTAL LIABILITIES	14,925

FUND BALANCE

Reserved for Scholarships	45,234
TOTAL FUND BALANCE	45,234

TOTAL LIABILITIES AND FUND BALANCE	\$ 60,159
---	------------------

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

SUPPLEMENTAL SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

FISCAL YEAR ENDED JUNE 30, 2008

	JULY 1, 2007	RECEIPTS	DISBURSEMENTS	JUNE 30, 2008
<u>STUDENT ACTIVITIES</u>				
General Activities	\$ 1,371	\$ 6,916	\$ 6,855	\$ 1,432
Class of :			-	
2007	67	-	67	-
2008	9,827	32,559	42,386	-
2009	4,233	7,361	5,140	6,454
2010	992	2,667	1,334	2,325
2011	-	1,274	704	570
Student Council	373	356	658	71
Yearbook	2,539	4,734	6,480	793
Varsity Club	-	11	11	-
Music	183	10	11	182
Pencil Fund	317	-	317	-
Spanish Club	190	-	-	190
HS Girls Basketball Camp	361	3,643	3,971	33
Cheerleaders	1,225	3,335	4,323	237
Drama Club	641	731	713	659
Prom Committee	-	990	210	780
All-Class Reunion	255	-	-	255
Football	-	12,210	11,370	840
Boys Basketball	2,521	7,429	9,846	104
TOTAL STUDENT ACTIVITIES	\$ 25,095	\$ 84,226	\$ 94,396	\$ 14,925
 <u>SCHOLARSHIP ACCOUNTS</u>				
Scholarship Accounts	39,693	5,563	650	44,606
Band Instrument Fund	620	8	-	628
TOTAL SCHOLARSHIP ACCOUNTS	40,313	5,571	650	45,234
 TOTALS	\$ 65,408	\$ 89,797	\$ 95,046	\$ 60,159

The notes to the financial statements are an integral part of this report.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

PROPERTY TAX DATA

FOR THE YEAR ENDED JUNE 30, 2008

<u>YEAR LEVIED</u>	<u>LEVY</u>	<u>COLLECTIONS AND ADJUSTMENTS</u>	<u>BALANCE JUNE 30, 2008</u>
<u>GENERAL FUND</u>			
2007-08	\$ 1,897,709	\$ 1,895,200	\$ 2,509
2006-07	1,698,251	1,697,368	883
2005-06	1,625,086	1,625,086	-
2004-05	1,485,101	1,484,302	799
2003-04	1,306,175	1,306,175	-
TOTAL GENERAL FUND	\$ 8,012,322	\$ 8,008,131	\$ 4,191
<u>DEBT RETIREMENT FUND</u>			
2007-08	\$ 530,487	\$ 529,009	\$ 1,478
2006-07	521,654	521,422	232
2005-06	491,892	491,845	47
2004-05	473,386	473,002	384
2003-04	463,794	462,489	1,305
TOTAL DEBT RETIREMENT	\$ 2,481,213	\$ 2,477,767	\$ 3,446
TOTAL ALL FUNDS	\$ 10,493,535	\$ 10,485,898	\$ 7,637

The notes to the financial statements are an integral part of this report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PREPARED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education
Watersmeet Township School District
Watersmeet, Michigan 49969

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Watersmeet Township School District**, Watersmeet, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the **Watersmeet Township School District**, Watersmeet, Michigan's basic financial statements, and have issued our report thereon dated November 10, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and by the standards prescribed by the State Treasurer.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Watersmeet Township School District**, Watersmeet, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing opinions on the effectiveness of the **Watersmeet Township School District**, Watersmeet, Michigan's internal control over financial reporting. Accordingly, we do not express opinions on the effectiveness of the **Watersmeet Township School District**, Watersmeet, Michigan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the **Watersmeet Township School District**, Watersmeet, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the **Watersmeet Township School District**, Watersmeet, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the **Watersmeet Township School District**, Watersmeet, Michigan's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the **Watersmeet Township School District**, Watersmeet, Michigan's internal control.

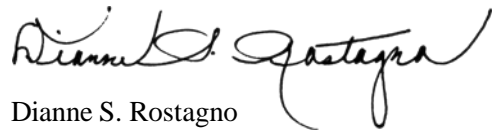
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Watersmeet Township School District**, Watersmeet, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the **Watersmeet Township School District**, Watersmeet, Michigan in a separate letter dated November 10, 2008.

This report is intended solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with a large, stylized "R" and "S".

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

November 10, 2008

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Watersmeet Township School District
PO Box 217
Watersmeet, Michigan 49969

Compliance

We have audited the compliance of the **Watersmeet Township School District**, Watersmeet, Michigan, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The **Watersmeet Township School District**, Watersmeet, Michigan's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the **Watersmeet Township School District**, Watersmeet, Michigan's management. Our responsibility is to express opinions on the **Watersmeet Township School District**, Watersmeet, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and with the standards prescribed by the State Treasurer. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Watersmeet Township School District**, Watersmeet, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination on the **Watersmeet Township School District**, Watersmeet, Michigan's compliance with those requirements.

In our opinions, the **Watersmeet Township School District**, Watersmeet, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the **Watersmeet Township School District**, Watersmeet, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs.

Internal Control Over Compliance (Continued)

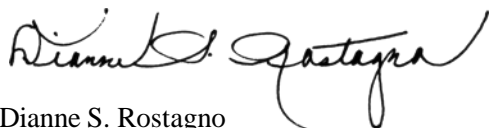
In planning and performing our audit, we considered the **Watersmeet Township School District**, Watersmeet, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinions on compliance, but not for the purpose of expressing opinions on the effectiveness of internal control over compliance. Accordingly, we do not express opinions on the effectiveness of the **Watersmeet Township School District**, Watersmeet, Michigan's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and it is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno". The signature is fluid and cursive, with the first name "Dianne" and last name "Rostagno" clearly distinguishable.

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

November 10, 2008

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 7/1/2007	(MEMORANDUM ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	ACCRUED (DEFERRED) REVENUE 6/30/2008	ADJUSTMENTS
US DEPT OF EDUCATION								
Direct Programs								
PL 874 Impact Aid *	84.041	\$ 583,753	\$ -	\$ -	\$ 583,753	\$ 583,753	\$ -	\$ -
Rural Education Achievement	84.358	22,247	-	-	22,247	22,247	-	-
Total Direct Programs		\$ 606,000	\$ -	\$ -	\$ 606,000	\$ 606,000	\$ -	\$ -
Passed Through MDE								
ESEA Title I #081530-0708	84.010	45,798	-	-	45,798	45,798	-	-
Total Title I		45,798	-	-	45,798	45,798	-	-
Title V LEA Allocation #080250-0708	84.298	805	-	-	805	805	-	-
Total Title V		805	-	-	805	805	-	-
Title II-A Improving Teacher Quality #080520-0708	84.367	11,015	-	-	11,015	11,015	-	-
Total Title II-A		\$ 11,015	\$ -	\$ -	\$ 11,015	\$ 11,015	\$ -	\$ -

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 7/1/2007	(MEMORANDUM ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	ACCRUED (DEFERRED) REVENUE 6/30/2008	ADJUSTMENTS
US DEPT OF EDUCATION								
<u>Passed through MDE, Cont.</u>								
Title II-D								
Tech Literacy Challenge								
#084290-0708	84.318	\$ 427	\$ -	\$ -	\$ 427	\$ 427	\$ -	\$ -
Total Title II-D		427	-	-	427	427	-	-
Reading First Competitive								
#082930-0708	84.357	139,725	-	-	139,725	139,725	-	-
Total Reading First State Grant		139,725	-	-	139,725	139,725	-	-
Total Passed Through MDE		\$ 197,770	\$ -	\$ -	\$ 197,770	\$ 197,770	\$ -	\$ -
TOTAL US DEPT OF EDUCATION		\$ 803,770	\$ -	\$ -	\$ 803,770	\$ 803,770	\$ -	\$ -

WATERSMEET TOWNSHIP SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 7/1/2007	(MEMORANDUM ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	ACCRUED (DEFERRED) REVENUE 6/30/2008	ADJUSTMENTS
US DEPT OF AGRICULTURE								
<u>Passed Through MDE</u>								
<u>National School Lunch</u>								
Section 4 Lunches								
#071950	10.555	\$ 731	\$ -	\$ -	\$ 731	\$ 731	\$ -	\$ -
#081950	10.555	5,532	-	-	5,532	5,532	-	-
Subtotal		6,263	-	-	6,263	6,263	-	-
Section 11 Free & Reduced								
#071960	10.555	4,438	-	-	4,438	4,438	-	-
#081960	10.555	32,636	-	-	32,636	32,636	-	-
Subtotal		37,074	-	-	37,074	37,074	-	-
NSL Snacks								
#071980	10.555	172	-	-	172	172	-	-
#081980	10.555	1,057	-	-	1,057	1,057	-	-
Subtotal		1,229	-	-	1,229	1,229	-	-
Total National School Lunch		\$ 44,566	\$ -	\$ -	\$ 44,566	\$ 44,566	\$ -	\$ -
National School Lunch - Breakfast								
#071970	10.553	\$ 2,430	\$ -	\$ -	\$ 2,430	\$ 2,430	\$ -	\$ -
#081970	10.553	16,035	-	-	16,035	16,035	-	-
Total National School Lunch - Breakfast		18,465	-	-	18,465	18,465	-	-
Entitlement Commodities	10.550	6,230	-	-	6,230	6,230	-	-
Bonus Commodities	10.550	151	-	-	151	151	-	-
Total Commodities		6,381	-	-	6,381	6,381	-	-
Total US Dept Agriculture		\$ 69,412	\$ -	\$ -	\$ 69,412	\$ 69,412	\$ -	\$ -

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 7/1/2007	(MEMORANDUM ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	ACCRUED (DEFERRED) REVENUE 6/30/2008	ADJUSTMENTS
US DEPT OF INTERIOR								
Other Federal Assistance								
Passed Through								
Gogebic County								
Schools & Roads Grant	15.226	\$ 78,686	\$ -	\$ -	\$ 78,686	\$ 78,686	\$ -	\$ -
Total US Dept of Interior		\$ 78,686	\$ -	\$ -	\$ 78,686	\$ 78,686	\$ -	\$ -
TOTAL FEDERAL								
FINANCIAL ASSISTANCE								
		\$ 951,868	\$ -	\$ -	\$ 951,868	\$ 951,868	\$ -	\$ -

* Designates major program

Expenditures in this schedule are in agreement with amounts reported in the financial statements and the financial reports.

The amounts reported on the R-7120, "Grants Section Auditor's Report" and/or the Cash Management Reporting System reconcile with this schedule.

The amounts reported on the Recipient Entitlement Balance Report (PAL Report) agree with this schedule for USDA

donated food commodities and are reported in the Cash Receipts column.

Expenditures include spoilage or pilferage.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2008

A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the **Watermsee Township School District** and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basis financial statements.

B. FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

C. MAJOR PROGRAMS

Major programs were determined by a risk based approach, which includes consideration of current and prior audit expenses, oversight by federal agencies and pass-through entities, and inherent risk of the program in addition to the \$ 300,000 expenditure threshold. The District qualifies as a low risk auditee, under the criteria specified in OMB Circular A-133, Section 530.

D. FOOTNOTES

Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

- | | | | | |
|-------------------------------------|----------------------|-----|----------------------|---------------|
| • Material weakness(es) identified? | _____ | yes | _____ <u>X</u> _____ | no |
| • Significant deficiencies? | _____ <u>X</u> _____ | yes | _____ | none reported |

Noncompliance material to financial statements noted?	_____	yes	_____ <u>X</u> _____	no
---	-------	-----	----------------------	----

Federal Awards

Internal control over major programs:

- | | | | | |
|--|-------|-----|----------------------|---------------|
| • Material weakness(es) identified? | _____ | yes | _____ <u>X</u> _____ | no |
| • Significant deficiencies identified that are not considered to be material weakness(es)? | _____ | yes | _____ <u>X</u> _____ | none reported |

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____	yes	_____ <u>X</u> _____	no
--	-------	-----	----------------------	----

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program of Cluster</i>
-----------------------	---

84.041	PL874 Impact Aid
--------	------------------

Dollar threshold used to distinguish between A and B programs:

\$ 300000

Auditee qualified as low-risk auditee?	_____ <u>X</u> _____	yes	_____	no
--	----------------------	-----	-------	----

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

FOR THE YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS

2008-1

Ability to Prepare Financial Statements and Related Note Disclosures

Like other local units of government of similar size, limited financial summaries and abbreviated financial statements are made available for the Board members. The School District relies on auditors to draft its financial statements and related disclosures in accordance with generally accepted accounting principles. Board members review and accept the financial statements on behalf of the School District. The hiring of additional personnel to prepare the financial statements would not be cost effective.

Recommendation

Members of the Board should remain involved in the financial reporting process to provide an oversight function. School District officials agree and will continue to use the auditor's assistance in drafting its financial statements and will remain involved in the financial reporting process.

2008-2

Audit Adjustments

The School District relies on its auditors to prepare year-end non-recurring adjusting journal entries to adjust its financial statements. Board members review and accept the adjusting entries on behalf of the District.

Recommendation

Members of the Board should continue to review and approve non-recurring entries. School District officials agree and will continue to use the auditor's assistance in preparing year-end adjusting journal entries.

WATERSMEET TOWNSHIP SCHOOL DISTRICT
--

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

FOR THE YEAR ENDED JUNE 30, 2008

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no matters to be reported.

DS Rostagno, CPA, P.C.

*101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042*

Members of the Board of Education
Watersmeet Township School District
Watersmeet, Michigan 49969

In planning and performing the audit of the financial statements of the **Watersmeet Township School District**, we considered the School District's internal control structure to plan the auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control structure. Accordingly, we do not express an opinion on the effectiveness of the **Watersmeet Township School District**, Watersmeet, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the **Watersmeet Township School District**, Watersmeet, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the **Watersmeet Township School District's** financial statements that is more than inconsequential will not be prevented or detected by the **Watersmeet Township School District's** internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the **Watersmeet Township School District's** internal control.

During our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. They are divided into three categories: significant deficiencies, material weaknesses, and other matters.

MATERIAL WEAKNESSES

There are no matters to report.

SIGNIFICANT DEFICIENCIES

New Comments

2008-1

Ability to Prepare Financial Statements and Related Note Disclosures

Like other local units of government of similar size, limited financial summaries and abbreviated financial statements are made available for the Board members. The School District relies on auditors to draft its financial statements and related disclosures in accordance with generally accepted accounting principles. Board members review and accept the financial statements on behalf of the School District. The hiring of additional personnel to prepare the financial statements would not be cost effective.

Recommendation

Members of the Board should remain involved in the financial reporting process to provide an oversight function. School District officials agree and will continue to use the auditor's assistance in drafting its financial statements and will remain involved in the financial reporting process.

2008-2

Audit Adjustments

The School District relies on its auditors to prepare year-end non-recurring adjusting journal entries to adjust its financial statements. Board members review and accept the adjusting entries on behalf of the District.

Recommendation

Members of the Board should continue to review and approve non-recurring entries. School District officials agree and will continue to use the auditor's assistance in preparing year-end adjusting journal entries.

OTHER MATTERS

BUDGETARY

Problem:

In conjunction with the past several audits, it has been noted that the School District had incurred several expenditures which were in excess of amounts appropriated.

Recommendation:

It was recommended that closer monitoring be done in regard to budgetary appropriations and expenditures.

Watersmeet Township School District

Page Three

OTHER MATTERS Continued)

BUDGETARY (Continued)

Resolution:

During the current fiscal year, there were several expenditures which again exceeded budgetary appropriations.

Current Recommendation:

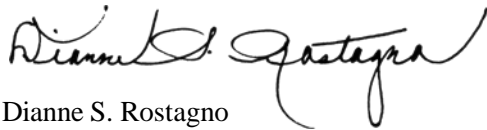
Close monitoring is required to assure that budgetary appropriations will not be exceeded. Provision should be made for year-end adjustments and out-of-period items in the monitoring process.

This letter does not affect our report dated November 10, 2008 on the financial statements of the **Watersmeet Township School District**. We will review the status of these comments during our next audit engagement. Our comments and recommendations, which have been discussed with appropriate School District officials, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, or to assist you in implementing the recommendations.

It has been a pleasure working with the staff and administration of the **Watersmeet Township School District**, and we wish to express our appreciation for their cooperation and assistance during the audit engagement.

This communication is intended solely for the information and use of management, those charged with governance, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Yours very truly,

A handwritten signature in black ink, appearing to read "Dianne S. Rostagno", written in a cursive style.

Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

November 10, 2008